

In the opinion of Baker & Daniels, bond counsel to the Commission (defined herein), under existing law, interest on the 2003 Bonds (defined herein) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the 2003 Bonds. Such exclusion is conditioned upon continuing compliance with the Tax Covenants (defined and described herein). In the opinion of Baker & Daniels, bond counsel to the Commission, under existing law, interest on the 2003 Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. See APPENDIX E for the proposed opinions of bond counsel. See also "TAX MATTERS."

\$75,550,000
INDIANA STATE OFFICE BUILDING COMMISSION
Facilities Revenue Refunding Bonds
(Auction Rate Securities)

\$55,075,000
Facilities Revenue Refunding
Bonds, Series 2003C
(Wabash Valley Correctional Facility)
CUSIP 455066GK0

\$20,475,000
Facilities Revenue Refunding
Bonds, Series 2003D
(Rockville Correctional Facility)
CUSIP 455066GL8

Dated: Date of Issuance

Due: July 1, 2020

The Indiana State Office Building Commission (the "Commission") will issue its Facilities Revenue Refunding Bonds, Series 2003C and its Facilities Revenue Refunding Bonds, Series 2003D (collectively, the "2003 Bonds"), pursuant to the Amended and Restated Trust Indenture dated as of January 1, 1998, as supplemented and amended (the "Indenture") for the purposes described herein. See "INTRODUCTION - Plan of Finance."

The 2003 Bonds will be issued initially as auction rate securities in denominations of \$25,000 or any integral multiple thereof. The 2003 Bonds will bear interest from their date of original issuance at the Initial Rate (as defined herein) for the Original Period (as defined herein). At the conclusion of the Original Period, the 2003 Bonds will bear interest at an Auction Rate for an Auction Rate Period (as defined herein) determined by the Commission, as described herein. The 2003 Bonds will not be subject to optional or mandatory tender for purchase at the conclusion of the Original Period. The Auction Rate will be determined pursuant to the procedures described herein. Interest on the 2003 Bonds will be payable on January 1, 2004 and each successive January 1 and July 1 through and including January 1, 2006, and on January 11, 2006, during the Original Period and on the Business Day next succeeding the last day of such Auction Period when in any other Auction Period. Interest on the 2003 Bonds during the Original Period will be calculated based on actual days elapsed during the period divided by a 360 day year. The 2003 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company. See "DESCRIPTION OF 2003 BONDS - General Description," and "— Book-Entry-Only System."

The 2003 Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity, as more fully described herein. See "DESCRIPTION OF 2003 BONDS - Redemption." The 2003 Bonds are subject to mandatory tender for purchase as described herein.

The scheduled payment of principal and interest on each series of 2003 Bonds when due will be guaranteed by one of two insurance policies to be issued concurrently with the delivery of the 2003 Bonds by Financial Security Assurance Inc. (the "Bond Insurer").



Each series of 2003 Bonds is separately and independently secured. The 2003 Bonds are limited obligations of the Indiana State Office Building Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues from the respective lease of the Wabash Valley Correctional Facility and the Rockville Correctional Facility (collectively, the "Refunded Facilities"), that remain after provision for payment of certain expenses of operation, maintenance and repair of such Refunded Facilities. Such income and revenues will be derived primarily from rental payments to be received by the Commission from the Indiana Department of Administration under the Use and Occupancy Agreement for the applicable Refunded Facility. **The 2003 Bonds do not constitute an indebtedness, liability or loan of the credit of the State of Indiana or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power.** See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

This Official Statement describes the 2003 Bonds only while they bear interest at an Auction Rate. If the Rate Period for any of the 2003 Bonds is changed to a different Rate Period, the Commission will supplement this Official Statement to describe the new Rate Period for such 2003 Bonds.

The 2003 Bonds are being offered when, as and if issued by the Commission and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Baker & Daniels, bond counsel to the Commission. Certain legal matters will be passed on for the Commission and the Indiana Department of Administration by the Attorney General of the State of Indiana, for the State of Indiana by Krieg DeVault LLP, disclosure counsel to the State, and for the Underwriters by Ice Miller and Gonzalez, Saggio & Harlan, L.L.P., Co-Underwriters' counsel. It is expected that the 2003 Bonds in definitive form will be available for delivery through The Depository Trust Company on or about December 4, 2003.

Bear, Stearns & Co. Inc.

Morgan Stanley

November 19, 2003

INDIANA STATE OFFICE BUILDING COMMISSION

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LIEUTENANT GOVERNOR – KATHERINE L. DAVIS, Vice Chairman

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INDIANA DEPARTMENT OF ADMINISTRATION
Charles R. Martindale, Commissioner

INDIANA DEPARTMENT OF CORRECTION
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No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by either the Commission or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of any of the 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth in this Official Statement has been obtained from the State of Indiana, the Commission and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. The information, estimates and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 2003 Bonds shall, under any circumstance, create any implication that there has been no change in the affairs of the Commission, the State of Indiana or any other person described in this Official Statement subsequent to the date as of which such information is presented.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning the Bond Insurer contained under the caption "BOND INSURANCE" and APPENDIX G, "SPECIMEN BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2003 Bonds; or (iii) the tax-exempt status of the interest on the 2003 Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2003 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE STATE OF INDIANA, THE COMMISSION AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission in Securities and Exchange Commission Rule 15c2-12, as amended, the Commission and the State of Indiana will enter into a Continuing Disclosure Undertaking Agreement with J.P. Morgan Trust Company, National Association, as the counterparty. See "CONTINUING DISCLOSURE" and APPENDIX D, "SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT."

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\$75,550,000
INDIANA STATE OFFICE BUILDING COMMISSION
Facilities Revenue Refunding Bonds

\$55,075,000
Facilities Revenue Refunding
Bonds, Series 2003C
(Wabash Valley
Correctional Facility)

\$20,475,000
Facilities Revenue Refunding
Bonds, Series 2003D
(Rockville Correctional
Facility)

INTRODUCTION

The purpose of this Official Statement, including the cover page, preliminary pages and appendices hereto (the "Official Statement") is to provide information about the Indiana State Office Building Commission (the "Commission") and the offering of the Commission's Facilities Revenue Refunding Bonds, Series 2003C (Wabash Valley Correctional Facility) (the "2003C Bonds") and Facilities Revenue Refunding Bonds, Series 2003D (Rockville Correctional Facility) (the "2003D Bonds," and together with the 2003C Bonds, the "2003 Bonds"). The 2003 Bonds are being issued pursuant to (1) Indiana Code 4-13.5 (the "Act"), (2) the Indenture (as defined herein) and (3) a resolution adopted by the Commission on August 13, 2003. The Act empowers the Commission to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition, construction and equipping of a Facility, as defined in the Act ("Facility"), or for the purpose of refunding bonds or notes issued by the Commission. *See* "INDIANA STATE OFFICE BUILDING COMMISSION." Definitions of certain words and terms used herein are set forth in APPENDIX F, "DEFINITIONS" and APPENDIX H, "SUMMARY OF AUCTION PROCEDURES."

Plan of Finance

Pursuant to its authority under the Act, the Commission previously issued several series of revenue bonds, including the following: (i) its Correctional Facilities Program Revenue Bonds, Series 1995A (the "1995A Bonds"), to finance the remaining costs of the acquisition, construction, design and equipping of a maximum security correctional facility and a medium security correctional facility in Sullivan County, Indiana (collectively, the "Wabash Valley Correctional Facility"), and (ii) its Correctional Facilities Program Revenue Bonds, Series 1995B (the "1995B Bonds"), to finance the acquisition, construction, design, renovation and equipping of a women's correctional facility in Parke County, Indiana (the "Rockville Correctional Facility," and together with Wabash Valley Correctional Facility, the "Refunded Facilities").

The 2003 Bonds will be issued under the Amended and Restated Trust Indenture dated as of January 1, 1998 (the "Amended and Restated Indenture"), between the Commission and J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association (the "Trustee"), as previously supplemented and amended, and as further amended and supplemented by the Series 2003C Supplemental Trust Indenture with respect to the 2003C Bonds (the "Series 2003C Supplemental Indenture") and the Series 2003D Supplemental Trust Indenture with respect to the 2003D Bonds (the "Series 2003D Supplemental Indenture," and together with the Series 2003C Supplemental Indenture, the "2003 Supplemental Indentures"), each between the Commission and the Trustee and each dated as of November 1, 2003 (collectively, the "Indenture"). The 2003C Bonds will be issued to advance refund the 1995A Bonds maturing on or after July 1, 2006 (the "Refunded 1995A Bonds"). The 2003D Bonds will be issued to advance refund the 1995B Bonds maturing on July 1 of the years 2006 through 2008, inclusive, and on July 1, 2020 (the "Refunded 1995B Bonds" together with the Refunded 1995A Bonds, the "Refunded Bonds"). *See* "PLAN OF FINANCE—Plan of Refunding."

Security and Sources of Payment for 2003 Bonds

The 2003 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the Commission's income and revenues derived from its lease of the applicable Refunded Facility to the Department of Administration of the State of Indiana (the "Department of Administration")

under the applicable Use and Occupancy Agreement (as hereinafter defined) for the applicable Refunded Facility that remain after payment or provision for payment of certain expenses of operation, maintenance and repair of such Refunded Facility. **The Bonds do not constitute an indebtedness, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."**

Rentals are payable under each Use and Occupancy Agreement only if and when the construction of such Refunded Facility or portion thereof subject to such Use and Occupancy Agreement has been completed and such Refunded Facility or portion thereof is available for use and occupancy by the Department of Administration. The payment of rentals pursuant to each Use and Occupancy Agreement will be subject to and dependent upon funds having been appropriated by the General Assembly of the State (the "General Assembly") and being available for such purpose. The Department of Administration is not obligated to pay for the use and occupancy of any Refunded Facility but is instead required to vacate such Refunded Facility if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities thereby afforded. Each Use and Occupancy Agreement has a current term expiring July 1, 2005, but may be renewed for an additional two-year term after expiration of its current term or any subsequent two-year term. As of the date hereof, the construction of each Refunded Facility has been completed, and each Refunded Facility has been accepted by the Department of Administration as available for use and occupancy.

To date, the General Assembly has appropriated to the Department of Administration funds sufficient to pay all rentals for each Refunded Facility under the use and occupancy agreement for such Refunded Facility which have been due thereunder from the date thereof to the date hereof. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS."

Bond Insurance

Payment of the principal and interest on the 2003 Bonds when due will be guaranteed by one of two Municipal Bond Insurance Policies (the "Bond Insurance Policies") issued by Financial Security Assurance Inc. (the "Bond Insurer"). The Bond Insurance Policies do not insure payment of the Bonds upon a call for redemption (other than mandatory sinking fund redemption), or any payments to be made on an accelerated basis, including upon a mandatory purchase of the 2003 Bonds. See "BOND INSURANCE" and APPENDIX G, "SPECIMEN BOND INSURANCE POLICY." Notwithstanding anything in the Indenture or this Official Statement to the contrary, the Bond Insurer shall be deemed to be the owner of all the 2003 Bonds of such series for purposes of consents to amendments and supplements to the Indenture.

Official Statement

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. This Introduction is only a brief description and a full review should be made of this entire Official Statement (including the cover page, preliminary pages and appendices), as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument.

The Commission does not certify as to the accuracy or sufficiency of the disclosure practices of or content provided by DTC and is not responsible for the information under "DESCRIPTION OF 2003 BONDS – Book-Entry-Only System."

Definitions of certain words and terms used in this Official Statement are set forth in APPENDIX F, "DEFINITIONS."

Interest Rate and Mandatory Purchase

The 2003 Bonds initially will bear interest at the Initial Rate as described under the caption "DESCRIPTION OF 2003 BONDS – Auction Procedures." The Bank of New York will initially serve as the Auction Agent. The Original Period will begin on the date the 2003 Bonds are issued and end on January 10, 2006 (the "Initial Auction Date"). During the Original Period, the Bonds will bear interest at the rate established by the Underwriters prior to delivery of the 2003 Bonds (the "Initial Rate"). Interest during the Original Period will be payable on January 1, 2004 and each January 1 and July 1 through and including January 1, 2006 and on January 11, 2006. Interest on the 2003 Bonds during the Original Period will be calculated based on actual days elapsed during the period divided by a 360 day year. The 2003 Bonds will continue to bear interest at an Auction Rate determined as described herein unless and until they are converted to a different Rate Period as described herein under the caption "DESCRIPTION OF 2003 BONDS – Auction Procedures." Following the Original Period and for so long as the 2003 Bonds bear interest at an Auction Rate, interest on the 2003 Bonds will be paid on the Business Day next succeeding the last day of each Auction Period. During the Original Period, the Commission may determine the length of any Standard Auction Period (after the Original Period) by written notice delivered at least 20 days but no more than 60 days prior to the Initial Auction Date. During any Auction Period, the interest rate on the 2003 Bonds may not exceed 12% per annum (the "Maximum Rate"). There are no provisions for optional tender of the 2003 Bonds during an Auction Period. **There will be no optional or mandatory tender of the 2003 Bonds at the conclusion of the Original Period.**

Each 2003 Supplemental Indenture provides that any 2003 Bonds may be converted to bear interest at a Weekly Rate or a Term Rate. If the Rate Period for any 2003 Bonds is changed to a different Rate Period, the Commission will supplement this Official Statement to describe the new Rate Period.

The 2003 Bonds will be subject to mandatory purchase upon conversion from the Auction Period to another Rate of the 2003 Bonds Period as described herein.

PLAN OF FINANCE

Refunded Facilities

Outstanding Bonds Related to Refunded Facilities. The Commission previously issued (i) the 1995A Bonds in the aggregate principal amount of \$54,025,000 and (ii) its Facilities Revenue Refunding Bonds, Series 1998A (the "1998A Bonds," and together with the 1995A Bonds and the 2003C Bonds are hereinafter collectively referred to as the "Wabash Valley Correctional Facility Bonds"), for the purpose of financing and refinancing the costs of acquisition, design, construction and equipping of the Wabash Valley Correctional Facility. The Wabash Valley Correctional Facility Bonds are secured exclusively by the payments to be made under the Use and Occupancy Agreement dated as of November 1, 1991, between the Commission and the Department of Administration relating to the Wabash Valley Correctional Facility, as supplemented and amended by a First Supplemental Use and Occupancy Agreement dated as of July 1, 1995 (as supplemented and amended, the "Wabash Valley Correctional Facility Use and Occupancy Agreement"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Commission also previously issued the 1995B Bonds in the aggregate principal amount of \$47,975,000 (the 1995B Bonds, together with the 2003D Bonds, are hereinafter collectively referred to as the "Rockville Correctional Facility Bonds"), for the purpose of financing the acquisition, design, construction, renovation and equipping of the Rockville Correctional Facility. The Rockville Correctional Facility Bonds are secured exclusively by the payments to be made under the Use and Occupancy Agreement dated as of September 15, 1995, between the Commission and the Department of Administration relating to the Rockville Correctional Facility (as supplemented and amended, the "Rockville Correctional Facility Use and Occupancy Agreement"). See "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS."

Payments made under the Wabash Valley Correctional Facility Use and Occupancy Agreement and the Rockville Correctional Facility Use and Occupancy Agreement for the use and occupancy of each respective Refunded Facility are available for only the repayment of the principal, premium, if any, and interest on the Wabash Valley Correctional Facility Bonds, including the 2003C Bonds, and the Rockville Correctional Facility Bonds,

including the 2003D Bonds, respectively. Funds from such payments will not be available for the repayment of interest or principal on any other series of Bonds.

Pursuant to the Amended and Restated Indenture, the Commission is permitted to specify in a Supplemental Indenture, the method of computing interest on Variable Interest Rate Bonds and the Debt Service on types of debt instruments not described in the Amended and Restated Indenture. The 2003 Bonds are Variable Interest Rate Bonds and are also debt instruments not described in the Amended and Restated Indenture, thus the applicable 2003 Supplemental Indenture specifies the methods of computing the interest rate thereon under the Indenture, including the calculation of Debt Service for purposes of the Indenture. See the definitions of Accrued Debt Service, Debt Service, and 2003 Annual Interest Portion, in APPENDIX F of this Official Statement.

Plan of Refunding

2003C Bonds. The 2003C Bonds are being issued under the Amended and Restated Indenture and the Series 2003C Supplemental Indenture to refund the Refunded 1995A Bonds. The 2003C Bonds will be on parity with the other Wabash Valley Correctional Facility Bonds which remain outstanding together with any Additional Bonds related to the Wabash Valley Correctional Facility which may in the future be issued.

The proceeds from the sale of the 2003C Bonds will be used to provide funds for the payment of (i) a deposit into the Refunded 1995A Bonds Escrow Fund (as hereinafter defined) for the purpose of refunding the Refunded 1995A Bonds and (ii) a deposit into the Series 2003C Expense Account of the Construction Fund under the Indenture for the purpose of paying the costs of issuance of the 2003C Bonds. See "SOURCES AND USES OF FUNDS—2003C Bonds."

To refund the Refunded 1995A Bonds, a portion of the proceeds of the 2003C Bonds, together with certain available funds held under the Indenture, will be deposited in an escrow fund (the "Refunded 1995A Bonds Escrow Fund") established pursuant to an Escrow Deposit Agreement dated as of November 1, 2003, between J.P. Morgan Trust Company, National Association, as escrow trustee, and the Commission (the "Refunded 1995A Bonds Escrow Deposit Agreement") and will be used to purchase United States Treasury Obligations which, together with the interest earned thereon, will be sufficient to pay when due the principal of and redemption premium, if any, and interest accrued and to accrue on the Refunded 1995A Bonds to and including July 1, 2005, the date the Refunded 1995A Bonds will be called for redemption. Upon the deposit of such funds in the Refunded 1995A Bonds Escrow Fund, the Refunded 1995A Bonds will be defeased. See "ARITHMETICAL VERIFICATION."

2003D Bonds. The 2003D Bonds are being issued under the Amended and Restated Indenture and the Series 2003D Supplemental Indenture to refund the Refunded 1995B Bonds. The 2003D Bonds will be on parity with the other Rockville Correctional Facility Bonds which remain outstanding together with any Additional Bonds related to the Rockville Correctional Facility which may in the future be issued.

The proceeds from the sale of the 2003D Bonds will be used to provide funds for the payment of: (i) a deposit into the Refunded 1995B Bonds Escrow Fund (as hereinafter defined) for the purpose of refunding the Refunded 1995B Bonds and (ii) a deposit into the Series 2003D Expense Account of the Construction Fund under the Indenture for the purpose of paying the costs of issuance of the 2003D Bonds. See "SOURCES AND USES OF FUNDS—2003D Bonds."

To refund the Refunded 1995B Bonds, a portion of the proceeds of the 2003D Bonds, together with certain available funds held under the Indenture, will be deposited in an escrow fund (the "Refunded 1995B Bonds Escrow Fund," and together with the Refunded 1995A Bonds Escrow Fund, the "Escrow Funds") established pursuant to an Escrow Deposit Agreement dated as of November 1, 2003, between J.P. Morgan Trust Company, National Association, as escrow trustee, and the Commission (the "Refunded 1995B Bonds Escrow Deposit Agreement") and will be used to purchase United States Treasury Obligations which, together with the interest earned thereon, will be sufficient to pay when due the principal of and redemption premium, if any, and interest accrued and to accrue on the Refunded 1995B Bonds to and including July 1, 2005, the date the Refunded 1995B Bonds will be called for redemption. Upon the deposit of such funds in the Refunded 1995B Bonds Escrow Fund, the Refunded 1995B Bonds will be defeased. See "ARITHMETICAL VERIFICATION."

Bonds
Refunded

1995A (Wabash Valley Correctional Facility)

1995B (Rockville Correctional Facility)

Maturities Refunded

On or after July 1, 2006

July 1, 2006 through
2008 inclusive, and
July 1, 2020

Other Bonds, Other Indenture Facilities

In addition to the Wabash Valley Correctional Facility Bonds and the Rockville Correctional Facility Bonds, the Commission has also previously issued and has outstanding under the Indenture, six other series of its facilities revenue bonds (the "Prior Bonds") for the purpose of financing and refinancing the costs of acquisition, design, construction and equipping of certain other authorized Indenture Facilities (as defined herein). **The Prior Bonds are secured exclusively by the payments to be made under the respective use and occupancy agreement relating to the corresponding Indenture Facility financed by such series of Prior Bonds and not the Wabash Valley Correctional Facility Use and Occupancy Agreement or the Rockville Correctional Facility Use and Occupancy Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR BONDS" and APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA – STATE INDEBTEDNESS."**

Under the Indenture, one or more series of (1) additional bonds ("Additional Bonds") may be issued to finance or refinance a note issued to finance all or a portion of the Acquisition Costs of an additional Facility or portion thereof ("Additional Facility," together with the other existing Facilities financed under the Indenture, including Wabash Valley Correctional Facility and Rockville Correctional Facility, collectively, the "Indenture Facilities") or additions to such Indenture Facilities; and (2) refunding bonds ("Refunding Bonds") may be issued to refund all or a portion of any then outstanding Prior Bonds, the 2003 Bonds and any Additional Bonds. The Prior Bonds, the 2003 Bonds, any Additional Bonds and any Refunding Bonds issued pursuant to the Indenture are collectively referred to as the "Bonds." See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE -- Additional Bonds" and " – Refunding Bonds."

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SOURCES AND USES OF FUNDS

Series 2003C Bonds

The estimated sources and uses of funds in connection with the issuance of the 2003C Bonds is summarized in the following table:

Sources:

Principal amount of 2003C Bonds	\$55,075,000
Funds available under the Indenture	\$ <u>1,151,108</u>
Total sources	<u>\$56,226,108</u>

Uses:

Deposit to 1995A Bonds Escrow Fund	\$55,434,297
Underwriting Discount	\$ 387,113
Costs of Issuance ⁽¹⁾	\$ <u>404,698</u>
Total uses	<u>\$56,226,108</u>

⁽¹⁾ Including estimated legal, accounting, printing, fiduciary expenses and other expenses, and the premium for the applicable Bond Insurance Policy.

Series 2003D Bonds

The estimated sources and uses of funds in connection with the issuance of the 2003D Bonds is summarized in the following table:

Sources:

Principal amount of 2003D Bonds	\$20,475,000
Funds available under the Indenture	\$ <u>422,667</u>
Total sources	<u>\$20,897,667</u>

Uses:

Deposit to 1995B Bonds Escrow Fund	\$20,581,737
Underwriting Discount	\$ 143,961
Costs of Issuance ⁽¹⁾	\$ <u>171,969</u>
Total uses	<u>\$20,897,667</u>

⁽¹⁾ Including estimated legal, accounting, printing, fiduciary expenses and other expenses, and the premium for the applicable Bond Insurance Policy.

SECURITY AND SOURCES OF PAYMENT FOR BONDS

Rental Payments

Each series of the 2003 Bonds is issued pursuant to the Indenture but is separately and independently secured by a separate and distinct Trust Estate. The 2003 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the Commission's income and revenues derived from its lease of the applicable Refunded Facility to the Department of Administration under the applicable Use and Occupancy Agreement that remain after payment or provision for payment of certain expenses of operation, maintenance and repair of such Refunded Facility.

The 2003 Bonds will not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power.

The Prior Bonds are also limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues derived from the lease of the particular and respective Indenture Facilities financed with the proceeds of the Prior Bonds that remain after payment or provision for payment of the expenses of operation, maintenance and repair of the particular and respective Indenture Facility. Any Additional Bonds shall be payable solely from, and secured exclusively by, a pledge to the Trustee of the income and revenues from the lease of the particular Indenture Facility for which such Additional Bonds are issued that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such Indenture Facility. See APPENDIX B, "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS."

Trust Estate, Net Revenues. In the Indenture, the Commission pledges, assigns and grants a security interest in the respective Trust Estate (defined below) under the Indenture to the Trustee, in trust, to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds issued and outstanding under the Indenture with respect to a particular Indenture Facility, subject to the provisions of the Indenture requiring or permitting the application of the Trust Estate for the purposes and on the terms set forth in the Indenture. Each Trust Estate is pledged ratably to each series of Bonds related to a particular Indenture Facility and includes, with respect to each series of Bonds with respect to a particular Indenture Facility: (1) the Net Revenues (as defined below) under the Indenture related to the Indenture Facility financed with such Bonds, (2) the proceeds of the sale of the Bonds under the Indenture related to such Indenture Facility, and (3) all funds, with respect to a particular Indenture Facility, held under the Indenture (except the applicable Revenue Fund, Operation and Maintenance Fund and Rebate Fund), including any investment thereof. Amounts held in the General Fund (defined herein) shall be held for the benefit of all Bonds, including the 2003 Bonds and the Prior Bonds, without regard to a particular Indenture Facility.

The Indenture defines "Net Revenues" as all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of the Indenture Facility or any portion thereof pursuant to the use and occupancy agreement (each, a "Use and Occupancy Agreement") related to such Indenture Facility or otherwise, or from the sale, transfer or conveyance of such Indenture Facility or any portion thereof, and remaining after the payment or provision for payment of the expenses of operation, maintenance and repair of such Indenture Facility or any portion thereof required to be paid by the Commission. The Net Revenues to be used for the payment of debt service on the Bonds issued under the Indenture related to a particular Indenture Facility will be derived primarily from payments to be received by the Commission from the Department of Administration under the Use and Occupancy Agreement relating to such Indenture Facility.

Appropriations. In accordance with the Act, payment of rentals under each Use and Occupancy Agreement is subject to and dependent upon funds (1) having been appropriated by the General Assembly and (2) being available for such purpose. In accordance with the Constitution and other laws of the State, the General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year and is to make appropriations for the biennium commencing on July 1 of each such year. The General Assembly also meets for a maximum period of 30 legislative days in intervening years and may make supplemental appropriations at such times. Although the

General Assembly has previously authorized the construction of the Indenture Facilities and has determined that a continuing need exists for the use and occupancy thereof, under Indiana law, there is not, and there may not be, any requirement for the General Assembly to make appropriations for any Indenture Facility for any Fiscal Year.

The Indenture requires that each of the Commission and the Department of Administration use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration moneys sufficient to enable the Commission to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in the preceding paragraph. However, neither the Department of Administration nor any holder of any Bonds, including the 2003 Bonds, may legally compel the General Assembly to make all or any such appropriations.

As of the date of this Official Statement, the General Assembly has budgeted sufficient amounts for the Department of Administration to make timely rental payments under each Use and Occupancy Agreement through June 30, 2005. See APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA" for more information concerning State indebtedness, State finances and the State budget and appropriations process.

Unjust Rent. In accordance with the Act, the Department of Administration is not obligated to pay for the use and occupancy of any Refunded Facility, but the Department of Administration is required to vacate such Refunded Facility if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities afforded. The Act provides that in determining just and reasonable amounts to be paid for the use and occupancy of a Refunded Facility, the Commission shall impose and collect amounts that in the aggregate will be sufficient to (1) pay the expenses of operation, maintenance and repair of such Refunded Facility, to the extent that the expenses are not otherwise provided, and (2) leave a balance of revenues from such Refunded Facility to pay the principal and interest (including any reserve or sinking funds) on the related bonds or loans as they become due and retire them at or before maturity. However, there can be no assurance that the terms and conditions of any Use and Occupancy Agreement and the amount to be paid for the use and occupancy of any Refunded Facility will not be shown to be unjust or unreasonable.

Under each Use and Occupancy Agreement, in the event the Department of Administration is required to vacate the Refunded Facility subject thereto, or any portion thereof because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to such Use and Occupancy Agreement at the end of any term, the Commission is required, under and subject to the Indenture to which such Refunded Facility is subject, to use its best efforts to re-lease such Refunded Facility to other users. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE – Tax Covenants." However, there can be no assurance that the Commission will be able to accomplish any such re-leasing, in whole or in part, or that, if accomplished, any such re-leasing will generate revenues sufficient to pay debt service on the related Bonds when due.

In accordance with the Act, rentals are payable under each Use and Occupancy Agreement only if and when (i) the construction of the Refunded Facility or portion thereof subject to such Use and Occupancy Agreement has been completed and (ii) such Refunded Facility or portion thereof is available for use and occupancy by the Department of Administration.

As of the date hereof, the construction of each Refunded Facility has been completed. However, the Commission may, in the future, construct additional buildings, structures, improvements or appurtenances on the real property upon which any Refunded Facility was Acquired (as hereinafter defined), which addition would thereby become a part of such Refunded Facility.

As of the date hereof, each Refunded Facility has been accepted by the Department of Administration as available for use and occupancy. However, there can be no assurance that, in the future, any Refunded Facility which is currently available for use and occupancy by the Department of Administration will remain available for use and occupancy by the Department of Administration.

Rents, Fees and Charges. The Indenture requires the Commission to fix, establish and maintain rents, rates, fees and charges which are reasonably expected to yield during each fiscal year of the State (a "Fiscal Year") in which the related Refunded Facility or any portion thereof is available for use and occupancy an amount which, together with any amounts in the related Construction Fund under the Indenture available therefor, is equal to at least (1) to the extent the Commission is obligated under the related Use and Occupancy Agreement or otherwise, to operate, maintain or repair such Refunded Facility or any portions thereof at its expense, 100 percent of such expenses of operation, maintenance and repair during such Fiscal Year for such Refunded Facility or such portions thereof, (2) 100 percent of the expenses to be incurred by the Commission in managing and administering a Facility or such portion thereof and in complying with the covenants of the Indenture, (3) 100 percent of the Debt Service for the related Refunded Facility, for such Fiscal Year, (4) 100 percent of any required deposits, to any Debt Service Reserve Fund under the Indenture during such Fiscal Year, if any, and (5) to the extent authorized or permitted by the Act, one sixth of such amount as the Commission annually estimates, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, is required to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Refunded Facility or such portion thereof to be incurred through the end of the sixth ensuing Fiscal Year commencing on the first day of such Fiscal Year. However, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to use and occupy the Refunded Facility subject to such Use and Occupancy Agreement, without affecting its right to use and occupy any other Refunded Facility under any other Use and Occupancy Agreement. However, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to use and occupy the Indenture Facility subject thereto, without affecting its right to use and occupy any other Indenture Facility under any other Use and Occupancy Agreement. The Indenture provides that, in such event, the Commission, in fixing rents, rates and fees and charges for an Indenture Facility which continues to be leased to the Department of Administration, must not establish rents, fees or charges for the Indenture Facility in excess of the Indenture Facility's allocable share of the amounts described in clauses (2), (3) or (4) above, determined by taking into account the amount of the bond proceeds used to finance such Indenture Facility under such Indenture. Rents, fees and charges for such Indenture Facility related to the amounts described in clauses (1) and (5) will be based on the costs directly related to such Indenture Facility.

For purposes of establishing the foregoing rents, rates, fees and charges, each 2003 Supplemental Indenture provides that the Commission will estimate Debt Service on the 2003 Bonds taking into account the factors deemed relevant to the Commission, including, but not limited to, those described in the definition of Series 2003 Annual Interest Portion, such as the Rate Period on the 2003 Bonds for the applicable period, the historical Variable Interest Rate on the 2003 Bonds, any 2003 Hedge Agreements and any amounts on deposit in the 2003 Interest Stabilization Fund. See APPENDIX F, "DEFINITIONS." Because the foregoing may be based on estimates of the Variable Interest Rate, it is possible that the actual interest borne by all or a portion of the 2003 Bonds may exceed the budgeted amounts used to establish the appropriation request for a particular Biennium or Fiscal Year or the monthly payments made under the applicable Use and Occupancy Agreement may not correspond to the actual monthly interest portion of the Debt Service. The Commission expects to monitor actively the actual interest rates as compared to the budgeted rates on the 2003 Bonds and expects to apply funds available in the applicable 2003 Interest Account, 2003 Principal Account and 2003 Interest Stabilization Fund, if any, to the extent needed to pay the accrued Debt Service on the applicable 2003 Bonds. See the caption "- 2003 Interest Stabilization Funds" below. Further, the Commission may use any other funds available to the Commission, including amounts held in the General Fund under the Indenture to the extent needed to pay the Debt Service on the 2003 Bonds. If the foregoing are not sufficient to pay the Debt Service on the 2003 Bonds, the Commission may request the Department of Administration to pay additional rentals for the Refunded Facility from other funds available to the Department of Administration. In addition, the Department of Administration and the Commission may request that the State Board of Finance transfer an existing appropriation to the Department of Administration for the purpose of paying Debt Service on the 2003 Bonds. The Commission and the Department of Administration shall use their best efforts to cause the General Assembly to make an additional appropriation for the benefit of the Department of Administration to enable the Commission to comply with its obligations to pay Debt Service on the 2003 Bonds as described under the caption "- Appropriations" above. For additional information, see the caption "FISCAL POLICIES -- Budget Process" in APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

If for any of the foregoing reasons the Commission is not receiving rentals from the Department of Administration for any Refunded Facility under the applicable Use and Occupancy Agreement, sufficient funds may not be available to pay Debt Service on the 2003 Bonds in full, on a timely basis. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

2003 Interest Stabilization Funds

The Commission has established for the 2003C Bonds and the 2003D Bonds, respectively, the Series 2003C Interest Stabilization Fund (the "Series 2003C Interest Stabilization Fund") and the Series 2003D Interest Stabilization Fund (the "Series 2003D Interest Stabilization Fund," each a "2003 Interest Stabilization Fund"). The Commission does not expect to fund such 2003 Interest Stabilization Fund on the date of issuance of the 2003 Bonds. Neither the Series 2003C Interest Stabilization Fund nor the Series 2003D Interest Stabilization Fund is pledged to pay Debt Service on the respective series of 2003 Bonds or is part of the Trust Estate. Funds in the applicable 2003 Interest Stabilization Fund will be held by the Commission and may be applied (i) first, for deposit with the Trustee to pay principal of or interest on the applicable series of 2003 Bonds or to remedy any deficiencies in the applicable 2003 Interest Account or 2003 Principal Account, (ii) second, to pay any amount owing to the Bond Insurer, (iii) third, to pay any amounts owing to the applicable Liquidity Provider, if any, with respect to any 2003 Reimbursement Obligations, (iv) fourth, to pay any amounts owing to the applicable Series 2003 Hedge Provider under any Series 2003 Hedge Agreement, (v) fifth, for deposit with the Trustee in any related Fund or Account to cure any deficiencies therein, and (vi) sixth, for deposit with the Trustee in the General Fund. See APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - 2003 Interest Stabilization Fund," and APPENDIX F, "DEFINITIONS."

No Mortgage or Debt Service Reserve Fund

The Trust Estate does not include, and holders of the 2003 Bonds will not receive, any mortgage, lien or security interest in the Refunded Facilities or any other Indenture Facilities or any other real property financed under the Indenture. Additionally, the Commission is not required to fund, and does not anticipate funding, a debt service reserve fund for the 2003 Bonds under the Indenture.

Enforceability of Rights, Remedies

The enforceability of the rights and remedies of the Trustee, the holders of the Bonds, the Commission and the Department of Administration are limited. See "ENFORCEABILITY OF REMEDIES."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2003 Bonds, the Bond Insurer will issue the Bond Insurance Policies for the 2003 Bonds. The Bond Insurance Policies guarantee the scheduled payment of principal of and interest on the 2003 Bonds when due as set forth in APPENDIX G, "SPECIMEN BOND INSURANCE POLICY."

The Bond Insurance Policies are not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

The Bond Insurer is a New York domiciled insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or the Bond Insurer is liable for the obligations of the Bond Insurer.

At June 30, 2003, the Bond Insurer's total policyholders' surplus and contingency reserves were approximately \$1,986,068,000 and its total unearned premium reserve was approximately \$1,195,179,000 in accordance with statutory accounting practices. At June 30, 2003, the Bond Insurer's total shareholders' equity was approximately \$2,152,547,000 and its total net unearned premium reserve was approximately \$1,010,472,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Bond Insurance Policies do not protect investors against changes in market value of the 2003 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Bond Insurer makes no representation regarding the 2003 Bonds or the advisability of investing in the 2003 Bonds. The Bond Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Bond Insurer has provided to the Commission the information presented under this caption for inclusion in the Official Statement.

DESCRIPTION OF 2003 BONDS

General Description

The 2003 Bonds are issuable as fully registered bonds. The 2003 Bonds are issuable in the denomination of \$25,000 and integral multiples thereof. The 2003 Bonds will be dated their date of issuance.

Interest on the 2003 Bonds will be payable on January 1, 2004 and the first day of each successive January and July through and including January 1, 2006 and on January 11, 2006, during the Original Period. At the conclusion of the Original Period, the 2003 Bonds will bear interest at an Auction Rate. Interest on the 2003 Bonds during an Auction Rate Period, including the Original Period, will be calculated based on actual days elapsed during the period divided by a 360 day year. Following the Original Period and for so long as the 2003 Bonds bear interest at an Auction Rate, interest on the 2003 Bonds will be paid on the Business Day next succeeding the last day of each Auction Period.

Securities Depository

So long as the 2003 Bonds of each series are registered in the name of DTC or its nominee, payments of principal of and redemption premium, if any, and interest on the 2003 Bonds will be paid by the Paying Agent for such series only to DTC or its nominee. Neither the Commission, the Paying Agent (as hereinafter defined) nor any other Fiduciary will have any responsibility for a Beneficial Owner's receipt from DTC or its nominee, or any from any DTC Participant or Indirect Participant, of any payments of principal of or redemption premium, if any, or interest on any 2003 Bonds. See "Book-Entry-Only System."

In the event the 2003 Bonds of any series are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the 2003 Bonds will be paid by check of the Paying Agent mailed on or before the business day prior to each Interest Payment Date to the registered owners or registered assigns appearing on the registration books maintained by the Bond Registrar as of the close of business on the most recent Record Date; *provided, however*, that a registered owner of at least \$1,000,000 aggregate principal amount of 2003 Bonds may request to receive payment of interest on any Interest Payment Date by wire transfer, upon written instructions to the Trustee not less than five business days prior to the Record Date immediately preceding such Interest Payment Date, which instructions will remain in effect until revoked in writing by such owner. In the event the 2003 Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, the principal of and redemption premium, if any, on the 2003 Bonds will be payable at the corporate trust operations office of the Paying Agent, in Columbus, Ohio.

Auction Procedures

The Trustee has been appointed Registrar (the "Registrar") and Paying Agent (the "Paying Agent") for the 2003 Bonds. The Trustee has also been initially appointed as the Tender Agent (the "Tender Agent"). The Bank of New York has been appointed Auction Agent. The Trustee, the Registrar, the Auction Agent, the Paying Agent and the Tender Agent may be removed or replaced by the Commission in accordance with the Indenture.

Morgan Stanley & Co. Incorporated and Bear, Stearns & Co. Inc. have been appointed as Broker-Dealers with respect to the 2003 Bonds. One or more other Broker-Dealers may be appointed, and any Broker-Dealer may be removed or replaced by the Commission. Bear, Stearns & Co. Inc. and Morgan Stanley & Co. Incorporated have been appointed initial Market Agents with respect to the 2003 Bonds.

Bear, Stearns & Co. Inc. has been appointed as the initial Remarketing Agent (the "Remarketing Agent") for the 2003 Bonds in accordance with the applicable 2003 Supplemental Indentures and the Commission will enter into a Remarketing Agreement and related documents with such Remarketing Agent in connection with issuance of the 2003 Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the applicable 2003 Supplemental Indenture; *provided, however*, that no removal of the Remarketing Agent will become effective until a successor Remarketing Agent has accepted such appointment as provided in the Indenture.

Original Period. The 2003 Bonds will be issued at an initial rate determined by the Underwriters (the "Initial Rate") for the Original Period. During the Original Period, the 2003 Bonds will bear interest at the Initial Rate through January 10, 2006 (the "Initial Auction Date") and interest will be paid on January 1, 2004 and the first day of each successive January and July through and including January 1, 2006 and on January 11, 2006. Interest on the 2003 Bonds during an Auction Rate Period, including the Original Period, will be calculated based on actual days elapsed during the period divided by a 360 day year. At the conclusion of the Original Period, the Commission will adjust the Auction Rate Period to a Standard Auction Period of seven, 28 or 35 days by delivering written notice and delivered at least 20, but not more than 60, days prior to the Initial Auction Date. The 2003 Bonds will then bear interest at the applicable Auction Rate. **There will be no mandatory or optional tender for purchase at the conclusion of the Original Period.**

Auction Rate Period; Auction Rate. During an Auction Rate Period (other than the Original Period), each Auction Period will be a period of seven, 28 or 35 days unless a different Auction Period is established. Each Auction Period will commence on the first Business Day following the end of the next preceding Auction Period. During any Auction Rate Period (after the Original Period), the Commission may determine the length of any Standard Auction Period by written notice delivered at least 20 days, but no more than 60 days, prior to such Auction Period.

The 2003 Bonds will bear interest at the Auction Rate which is established from time to time using the Auction Procedures set forth in the applicable 2003 Supplemental Indenture and as further described in APPENDIX H, "SUMMARY OF AUCTION PROCEDURES." The Auction Rate shall not exceed the Maximum Rate. The Series 2003 Bonds shall not be subject to optional tender for purchase during an Auction Rate Period.

Conversion from Auction Rate Period. At the option of the Commission, any series (or portion thereof) of 2003 Bonds may be converted from an Auction Rate Period to a Weekly Rate Period or a Term Rate Period. The Commission must give written notice of the conversion to the Trustee and such notice must specify (a) the effective date of the adjustment to the new Rate Period (the "Effective Date"), (b) the portion of such series of 2003 Bonds to be converted, and (c) must be accompanied by an opinion of bond counsel stating that such conversion is authorized under the Indenture and will not adversely affect the exclusion of the interest on the 2003 Bonds from gross income for federal income tax purposes. In the event of a conversion to a Term Rate Period, such notice must also specify the last day of such Term Rate Period. Following the Commission's election to convert, the Trustee must give notice of such conversion to owners of the applicable 2003 Bonds by first class mail, postage prepaid, postmarked not less than 15 days prior to the Effective Date of such conversion. Such notice shall state certain information, including, but not limited to: (i) that the interest rate on the applicable 2003 Bonds will be adjusted to the applicable Rate Period (subject to the receipt of the reaffirming opinion of bond counsel referred to in clause (b) above, if required), (ii) the Effective Date, (iii) that all such 2003 Bonds are subject to mandatory tender for purchase on such

Effective Date and (iv) the procedures of such mandatory tender for purchase and payment of the purchase price thereof.

Failure of Conversion. If a conversion of any series (or a portion thereof) of 2003 Bonds from an Auction Rate Period fails for any reason, the Trustee shall give written notice by first class mail, postage prepaid, as soon as practicable and in any event not later than the next Business Day to the Owners of such 2003 Bonds, that such conversion from an Auction Rate Period has not occurred, that such 2003 Bonds shall not be purchased on the failed Effective Date, that the Auction Rate Period will remain the same (if such previous Auction Rate Period was 35 days or less) or converted to an Auction Rate Period of seven days (if such previous Auction Rate Period was longer than 35 days), and that the interest rate shall continue to be the Auction Rate, provided, however, that the interest rate on such 2003 Bonds during the Auction Period commencing on such failed Effective Date shall be the Maximum Auction Rate.

For a detailed description of the Auction Procedures and certain definitions, See APPENDIX H, "SUMMARY OF AUCTION PROCEDURES."

Mandatory Tender for Purchase

General. Each 2003 Bond will be subject to mandatory tender for purchase at a price equal to 100 percent of the principal amount thereof on the following dates: (i) in the event of a conversion of such 2003 Bond from one Rate Period to a different Rate Period, on the day next succeeding the last day of the preceding Rate Period; and (ii) in the event of an adjustment from one Term Rate Period to another Term Rate Period (including a Term Rate Period of the same duration) of such 2003 Bond, on the day next succeeding the last day of the preceding Term Rate Period.

An Owner must deliver each 2003 Bond subject to mandatory tender for purchase as described in the preceding paragraph to the Trustee, as Tender Agent, at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Owner thereof, with the signature of such Owner guaranteed at or prior to 11:00 a.m., New York City time, on the purchase date to receive payment of the purchase price on such date to the extent the Trustee, acting as Tender Agent, has been provided with funds sufficient to make such payment. The occurrence of any event specified in the preceding paragraph will constitute the mandatory tender for purchase of each 2003 Bond (or portion thereof) irrespective of whether such 2003 Bond is actually delivered as required.

In the case of a mandatory tender for purchase on the day next succeeding the last day of each Rate Period (including each Term Rate Period), the Trustee shall give notice by first class mail to the Owners of the 2003 Bonds at their addresses shown on the registration books not less than 15 days prior to such purchase date. Such notice shall be included in the notice to Owners of the 2003 Bonds in connection with such conversion to or continuation of a Rate Period. However, in the event of a failed conversion of any series (or portion) of 2003 Bonds from an Auction Rate Period to another Rate Period, such mandatory tender and purchase shall not occur on the Effective Date, and such 2003 Bonds shall remain in the Auction Rate Period. See " – Auction Procedures – Failure of Conversion."

If the Rate Period for any series (or portion) of 2003 Bonds is converted to a different Rate Period, the Commission will supplement this Official Statement, if necessary, to describe the new Rate Period and related provisions with respect to such 2003 Bonds.

2003 Bonds Deemed Tendered. Any 2003 Bonds subject to mandatory tender for purchase shall be deemed tendered for purchase on the mandatory purchase date, irrespective of whether such 2003 Bonds shall be delivered as otherwise required. Any failure of the Trustee to give notice of a mandatory tender for purchase or cause such notice to be given will not affect the requirement of the Owners to tender the applicable 2003 Bonds for mandatory purchase on the Effective Date.

Redemption

Optional Redemption. While in an Auction Rate Period, the 2003 Bonds are subject to optional redemption by the Commission on the Business Day immediately succeeding any Auction Date at a redemption price equal to 100 percent of the principal amount thereof, together with accrued and unpaid interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The 2003 Bonds are subject to mandatory redemption on July 1 (or if July 1 is not an Interest Payment Date, then the Interest Payment Date next succeeding such July 1) in the years and the principal amounts set forth below at a redemption price equal to 100 percent of the principal amount thereof, together with accrued and unpaid interest, if any, to the redemption date.

<u>Year</u>	<u>Principal Amount</u>	
	<u>2003C Bonds</u>	<u>2003D Bonds</u>
2006		\$ 225,000
2007		2,000,000
2008		2,075,000
2009		200,000
2010	\$ 700,000	225,000
2011	1,550,000	225,000
2012	1,600,000	225,000
2013	1,650,000	250,000
2014	1,700,000	250,000
2015	1,750,000	250,000
2016	1,800,000	250,000
2017	10,550,000	3,400,000
2018	10,900,000	3,525,000
2019	11,250,000	3,625,000
2020	11,625,000*	3,750,000*

*Final Maturity

Extraordinary Redemption. The 2003 Bonds of each series are, at the option of the Commission, subject to extraordinary redemption prior to their stated maturities, at any time upon notice given within the time, in the manner and with the effect provided by the 2003 Supplemental Indenture for such series, upon the occurrence of any of the following events: (1) the applicable Refunded Facility is totally or substantially destroyed and the amount of insurance money received on account thereof by the Trustee is sufficient to pay all of the principal of and accrued interest on such Bonds outstanding under the applicable 2003 Supplemental Indenture; (2) there is a total or substantial failure of title with respect to the applicable Refunded Facility; or (3) there is a taking by condemnation or eminent domain of the applicable Refunded Facility. In the event any Refunded Facility is damaged or destroyed, such Refunded Facility may under certain circumstances be repaired, replaced or reconstructed. See APPENDIX B, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE – Insurance, Completion of Performance."

In the event of such an extraordinary redemption, the redemption price of 2003 Bonds of each series will be 100 percent of the principal amount of the 2003 Bonds being redeemed plus accrued interest to the redemption date but without any premium.

Selection of Bonds; Partial Redemption. If fewer than all of the 2003 Bonds of any series within a single maturity are called for redemption prior to maturity, the particular 2003 Bonds or portion thereof to be redeemed will be selected by the Trustee in such manner as the Trustee, in its discretion, may deem to be fair and appropriate. For any 2003 Bond called for prior redemption in a denomination of more than \$25,000, the portion of such Bond to be redeemed will be in a principal amount equal to \$25,000 or an integral multiple thereof. In selecting portions of 2003 Bonds of any series for redemption, the Trustee will treat each 2003 Bond as representing that number of 2003 Bonds of such minimum denomination, which is obtained by dividing the principal amount of such 2003 Bond to be redeemed in part by \$25,000. In the event that any portion of a 2003 Bond is redeemed, the owner of such 2003

Bond, upon surrender of such 2003 Bond and without charge, will receive a 2003 Bond or 2003 Bonds of like maturity for the unredeemed balance of the principal amount of such 2003 Bond.

So long as the 2003 Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only 2003 Bonds of such series or portions thereof registered in the name of DTC or its nominee, as described in the preceding paragraph. Neither the Commission, any Trustee nor any other Fiduciary will have any responsibility for selecting for redemption any Beneficial Owners' interests in the 2003 Bonds. See "Book-Entry-Only System."

Notice of Redemption. In the event that any 2003 Bonds of any series are called for redemption, the Trustee for such series will give notice not less than 30 days and not more than 60 days prior to the date fixed for any such redemption to the owners of the 2003 Bonds or portions thereof to be redeemed by sending a copy of the redemption notice required by the Indenture for such series, by first class mail, to such owners at their last address appearing on the registration books maintained by the Bond Registrar as of the close of business on the last business day of the month prior to the month during which such notice is mailed. Any defect in the giving of any notice will not affect the validity of the redemption proceedings for those 2003 Bonds for which notice was properly given.

So long as the 2003 Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of 2003 Bonds of such series only to DTC or its nominee, as described in the preceding paragraph. Neither the Commission, any Trustee nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any notices of redemption. See "Book-Entry-Only System."

Redemption Payments. On or prior to the date fixed for redemption of any 2003 Bonds of any series, there must be on deposit with the Paying Agent for such series sufficient funds to pay the redemption price of the 2003 Bonds or portions thereof called. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Paying Agent for such series, interest will cease to accrue on the 2003 Bonds or portions thereof that have been called.

For so long as the 2003 Bonds of each series are registered in the name of DTC or its nominee, redemption payments on the 2003 Bonds will be paid by the Paying Agent only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, any Paying Agent nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any redemption payments on any 2003 Bonds. See "Book-Entry-Only System."

Transfer and Exchange

The 2003 Bonds may be transferred or exchanged by any Bondholder or any Bondholder's duly authorized attorney at the corporate trust operations office of the Bond Registrar in Columbus, Ohio, to the extent and upon the conditions set forth in the Indenture for such series, including the payment of a sum sufficient to cover any tax, fee or other governmental charge for any such transfer or exchange that may be imposed upon the Commission or the Bond Registrar. The Bond Registrar will not be required (a) to transfer or exchange any 2003 Bonds during the period of 15 days prior to any selection of such Bonds to be redeemed until after the mailing of a notice of redemption, or (b) to transfer or exchange any 2003 Bonds called for redemption.

For so long as the 2003 Bonds are registered in the name of DTC or its nominee, the Bond Registrar will transfer and exchange 2003 Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, any Bond Registrar nor any other Fiduciary will have any responsibility for transferring or exchanging any Beneficial Owner's interest in the 2003 Bonds. See "Book-Entry-Only System."

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of

DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or any other Fiduciary or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission and the Underwriters believe to be reliable, but the Commission and the Underwriters take no responsibility for the accuracy thereof.

Notwithstanding any provision of the Indenture, including the Series 2003 Supplemental Indenture, so long as any Series 2003 Bond is registered in the name of Cede & Co., as nominee of DTC, all payment with respect to principal, interest and Purchase Price and all tenders or other deliveries and all notices with respect to the Series 2003 Bonds shall be made or given in accordance with DTC's rules and procedures.

Revision of Book-Entry-Only System

In the event that either (1) the Commission receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the 2003 Bonds or (2) the Commission elects to discontinue its use of DTC as a clearing agency for the 2003 Bonds, then the Commission and the Paying Agent will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the 2003 Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the 2003 Bonds and to transfer the ownership of each of the 2003 Bonds to such person or persons, including any other clearing agency, as the holder of such 2003 Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the 2003 Bonds, will be paid by the Commission.

INDIANA STATE OFFICE BUILDING COMMISSION

General

The Indiana State Office Building Commission is a public body corporate and politic. Although the Commission is separate from the State, the Commission's exercise of its powers constitutes an essential governmental function. Pursuant to the Act, the Commission may issue bonds, but any bonds issued by the Commission are corporate obligations only of the Commission and are payable solely from and secured exclusively by the pledge of the income and revenues of the Facility financed by such bonds that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such Facility, to the extent that expenses of operation, maintenance and repair are not otherwise provided. The Commission has no taxing power,

and any indebtedness incurred by the Commission does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. See APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA" for further information about State indebtedness.

Powers under Act

Under the Act, the Commission may, among other things, (1) acquire, own, manage, operate, hold, clear, improve, construct facilities on, sell, assign, exchange, transfer, convey, lease, mortgage or otherwise dispose of or encumber real property, or interests therein or facilities thereon, where such use is necessary or appropriate to the purposes of the Commission; and (2) borrow funds as set forth in the Act and issue revenue bonds of the Commission, payable solely from revenues, as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, or from both, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition or construction of any one or more facilities, or for the purpose of refunding any other bonds or loan contracts of the Commission.

Organization, Membership of Commission

The Commission consists of the Governor, who serves as chairman; the Lieutenant Governor, who serves as vice chairman; the State Budget Director, who serves as secretary; the State Treasurer, who serves as treasurer; the State Auditor; the Commissioner of the Department of Administration; and seven persons appointed by the Governor, no more than four of whom may be of the same political party. Of the members appointed by the Governor, (1) one must be either an architect or an engineer registered in the State; (2) one must be a general, mechanical or electrical contractor with not less than ten years of experience in nonresidential types of construction; (3) one must be a certified public accountant with not less than five years of experience in public building bond financing; and (4) one must be a person with experience and knowledge in the fields of architectural history or the preservation of historical buildings.

The terms of the current Governor and Lieutenant Governor will expire in January 2005. The terms of the current State Treasurer and State Auditor will expire in February 2007 and December 2006, respectively. The seven members appointed by the Governor are each appointed for terms of four years, during which they may not hold any other public office. The terms of all current appointed members of the commission will expire on July 1, 2005, but the then current Governor may reappoint any or all of them to additional terms.

Members

The following persons, including those persons with the particular types of experience or governmental positions required by the Act, are the present members of the Commission.

<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Joseph E. Kernan	Chairman	Governor
Katherine L. Davis	Vice Chairman	Lieutenant Governor
Marilyn F. Schultz	Secretary	State Budget Director
Tirn Berry	Treasurer	Treasurer of State
Connie Nass	Member	Auditor of State
Charles R. Martindale	Member	Commissioner, Department of Administration
Eleanor F. Bookwalter	Member*	Architectural Historian, Carmel, Indiana
Henry Camferdam, Jr.	Member*	President, Flying Dog Racing, Inc.
Brad Chambers	Member*	President, Buckingham Companies
Kenneth L. DeLap	Member*	President and Chairman of the Board, SIECO, Inc., Columbus, Indiana
Myron H. Frasier	Member*	Owner, Frasier's Gourmet Foods, Inc., Fishers, Indiana Retired Managing Partner, H.J. Umbaugh & Associates Certified Public Accountants, LLP
Kipper Tew	Member*	Partner, Krieg DeVault LLP, Indianapolis, Indiana
James Trotter	Member*	President, Trotter Construction

*Appointed by the Governor

Facilities Generally

The Commission is empowered to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, to acquire, construct and equip Facilities. The Act defines "Facilities" to include all or any part of one or more buildings, structures or improvements or parking areas, owned or leased by the Commission or the State for the purpose of (1) housing the personnel or activities of State agencies or branches of State government; (2) providing transportation or parking for State employees or persons having business with State government; (3) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons by the Indiana Department of Correction; (4) providing a building, structure or improvement for the care, maintenance or treatment of adults or children with mental illness, developmental abilities or addictions or other medical or rehabilitative needs ("regional health facilities"); (5) communications system infrastructure; and (6) laboratory facilities for the use of agencies of the State.

Indenture Facilities

Wabash Valley Correctional Facility is a correctional facility for adult male offenders, including maximum, medium and minimum security facilities. The complex is situated on 200 acres of land in Sullivan County in southwestern Indiana. Rockville Correctional Facility is a correctional facility for female adult offenders situated on 54 acres of land in Parke County in western Indiana. In addition to the Bonds issued to finance and refinance such Refunded Facilities, the Commission has also issued Bonds under the Indenture to finance the other Indenture Facilities described below.

Indenture Facility	Related Bonds
Miami Correctional Facility	Series 1999A Series 2001A
Pendleton Juvenile Correctional Facility	Series 2000A
New Castle Correctional Facility	Series 2002A
Indiana State Museum	Series 2003A
Evansville State Hospital	Series 2003B

Payments made under the use and occupancy agreements for the Indenture Facilities described in the table above are available only for the payment of the principal of and premium, if any, and interest on the related series of Prior Bonds. Such payments will not be available for payment of debt service on the 2003 Bonds. **Only payments made under the applicable Use and Occupancy Agreement for each Refunded Facility will secure the payment of the principal of and interest on the respective series of 2003 Bonds.**

In addition to the Bonds issued under the Indenture, the Commission has issued bonds pursuant to other, separate trust indentures ("Government Center Bonds") to finance the office and parking facilities of the Indiana Government Center (the "Government Center Facilities"). The Government Center Bonds are separately secured from the Bonds and are payable from the lease rentals applicable to such Government Center Facility under the applicable use and occupancy agreement for such Government Center Facility. For additional information with respect to the Government Center Bonds and the Prior Bonds, *see* APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA – STATE INDEBTEDNESS."

Other Facilities

The Commission has issued its Hoosier Notes to finance and expects to issue bonds to finance or refinance the cost of the Isaac Ray Treatment Center to be situated at the existing Logansport State Hospital in Logansport, Indiana, the Southeast Regional Treatment Facility in Madison, Indiana and laboratory facilities for the use of agencies of the State. Additionally, the Commission anticipates issuing bonds or Hoosier Notes to finance or refinance the costs of (i) a statewide wireless public safety communications system for use by the Indiana State Police and other law enforcement agencies and governmental entities; and (ii) two additional regional health facilities. If bonds are issued to finance or refinance any of the foregoing Facilities, such bonds will be payable from the lease of the applicable Facility under the applicable use and occupancy agreement for such Facility and will not be payable from either of the Use and Occupancy Agreements for the Refunded Facilities.

Summary of Outstanding Debt

For a summary of all the Commission's outstanding indebtedness, *see* APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA – STATE INDEBTEDNESS."

CORRECTIONAL FACILITIES PROGRAM

In 1991, in response to the State's existing and projected prison capacity and populations, the Indiana General Assembly authorized the Commission to finance the acquisition, design, construction and equipping of all or any part of one or more buildings, structures or improvements owned or leased by the Commission or the State for the custody, care, confinement or treatment of committed persons by the Department of Correction. The Act permits the Commission to provide correctional facilities ("Correctional Facilities") upon the General Assembly's statutory (1) finding that the State has a need for the renovation, refurbishing or alteration of existing facilities or construction of additional facilities and (2) authorization of the Commission to provide for such facilities.

Standards

The Commission expects that all of its Correctional Facilities have been designed and constructed in substantial compliance with current federal and State constitutional and statutory standards for custody and treatment of offenders. However, federal and State standards for custody and treatment of offenders, including standards for housing, medical care and other facilities and services, have changed in recent years and are expected to continue to change. While the Commission anticipates that all of its Correctional Facilities will be adaptable to such changes, there can be no assurance that they will be in compliance with future federal and State constitutional and statutory standards for custody and treatment of offenders. In addition, there can be no assurance as to the effect, if any, of noncompliance upon the availability of the Correctional Facilities for use and occupancy by the Department of Administration.

Indiana Department of Correction

The Indiana Department of Correction is organized under Indiana Code 11-8-2 as an agency of the State. The Commissioner of the Department of Correction is charged with responsibility for administering and supervising the Department of Correction, including all State owned or operated correctional facilities, including the Rockville Correctional Facility and the Wabash Valley Correctional Facility.

By law, the Department of Correction provides academic and vocational education and employment opportunities to offenders as well as medical care and recreational and cultural programs.

DEPARTMENT OF ADMINISTRATION

The Department of Administration leases each Facility from the Commission pursuant to the Use and Occupancy Agreement for such Facility. See APPENDIX B, "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS." Under the Act, the Department of Administration has the power to negotiate and execute a use and occupancy agreement for all or any State agencies or branches of State government.

Pursuant to Indiana Code 4-13-1, the Department of Administration is responsible for the provision of certain administrative services to State agencies. The Department of Administration is responsible for assigning office space, storage space and parking facilities for State agencies in accordance with Indiana Code 4-13-15.

The Department of Administration is headed by a Commissioner who is appointed by, and serves at the pleasure of, the Governor. Charles R. Martindale is Commissioner of the Department of Administration.

LITIGATION

At the time of delivery of the 2003 Bonds, the Commission will certify that there is no litigation or other proceeding pending or, to the knowledge of the Commission, threatened in any court, agency or other administrative body affecting the existence of the Commission, the title of its officers to their respective offices, or seeking to restrain or enjoin the issuance or delivery of the 2003 Bonds, or the collection of the revenues or receipts derived from any Use and Occupancy Agreement, pledged or to be pledged to pay the principal of and redemption premium, if any, and interest on the 2003 Bonds, or in any way contesting or affecting the issuance, execution, delivery, payment, security or validity of the 2003 Bonds, or in any way contesting or affecting the validity or enforceability

of any Indenture and any Use and Occupancy Agreement, or contesting the exclusion from gross income of interest on the 2003 Bonds for federal income tax purposes, or contesting the powers of the Commission, or any authority for the 2003 Bonds, the Indentures or the Use and Occupancy Agreements, or contesting in any way the completeness, accuracy or fairness of this Official Statement or materially and adversely affecting the financial condition of the Commission. For a discussion of litigation involving the State, *see* APPENDIX A.

TAX MATTERS

In the opinion of Baker & Daniels, bond counsel to the Commission, under existing law, interest on the 2003 Bonds is excludable from gross income for federal income purposes under Section 103 of the Code. This opinion relates only to the exclusion from gross income of interest on the 2003 Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Commission with the Tax Covenants (defined below). In the opinion of bond counsel, under existing law, interest on the 2003 Bonds is exempt from taxation in the State of Indiana, for all purposes, except the Indiana financial institutions tax and the Indiana inheritance tax. *See* APPENDIX E for the proposed opinions of bond counsel.

The Code imposes certain requirements, which must be met subsequent to the issuance of the 2003 Bonds as a condition to the exclusion from gross income of interest on the 2003 Bonds for federal income tax purposes. The Commission will covenant not to take any action, nor fail to take any action, within its power with respect to the 2003 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 2003 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). Noncompliance with such requirements may cause interest on the 2003 Bonds to be included in gross income for federal tax purposes retroactive to the date of issue of the 2003 Bonds, regardless of the date which noncompliance occurs. It is not an Event of Default under the Indenture if the interest on the 2003 Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the date of the issuance of the 2003 Bonds.

The interest on the 2003 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 2003 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general includes all corporations transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisers regarding the impact of this franchise tax on their ownership of the 2003 Bonds.

Although bond counsel has rendered an opinion that interest on the 2003 Bonds is excludable from federal gross income and exempt from certain State income taxes, the accrual or receipt of interest on the 2003 Bonds may otherwise affect a 2003 Bondholder's federal income or state income tax liability. The nature and extent of these other tax consequences will depend upon a 2003 Bondholder's particular tax status and a 2003 Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits, individuals eligible to claim the earned income tax credit under Section 37 of the Code, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the 2003 Bonds. Bond counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the 2003 Bonds should consult their own tax advisers with respect to the foregoing and other tax consequences of owning the 2003 Bonds.

ENFORCEABILITY OF REMEDIES

The enforceability of the rights and remedies of any Trustee or holders of the 2003 Bonds under the Indenture, the enforceability of the rights and remedies of the Commission under the Use and Occupancy Agreements, the enforceability of the rights and remedies of any other party under any other agreement in this financing, and the availability of remedies to any party seeking to enforce the pledge of the respective Trust Estates relating to the Series 2003 Bonds, including the pledge of the rentals under the applicable Use and Occupancy

Agreements (collectively, the "Pledges"), are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the rights and remedies provided (or which may be provided) under the Indenture, the Use and Occupancy Agreements and any other agreement in this financing, and the rights and remedies of any party seeking to enforce the Pledges, may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the 2003 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion in appropriate cases.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters are subject to the approving opinion of Baker & Daniels, bond counsel to the Commission, whose approving opinion will be delivered with the 2003 Bonds. See APPENDIX E. Certain legal matters will be passed upon for the Commission and the Department of Administration by the Attorney General of the State, counsel to the Commission and the Department of Administration, for the State by Krieg DeVault LLP, disclosure counsel to the State, and for the Underwriters by Ice Miller and Gonzalez, Saggio & Harlan, L.L.P., co-Underwriters' counsel.

The various legal opinions to be delivered concurrently with the delivery of the 2003 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Such legal opinions express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. The rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction. See "ENFORCEABILITY OF REMEDIES."

UNDERWRITING

The 2003 Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement for which Bear, Stearns & Co. Inc. is acting as representative. The Underwriters have jointly and severally agreed to purchase the 2003 Bonds at an aggregate purchase price of \$75,018,925.89 (which represents the face amount of the 2003 Bonds, less an underwriting fee of \$531,074.11), without accrued interest, pursuant to the contract of purchase (the "Purchase Contract") entered into by the Commission and the Underwriters. The Purchase Contract provides that the Underwriters will purchase all the 2003 Bonds if any are purchased. The Underwriters have agreed to make a *bona fide* public offering of all the 2003 Bonds at the par amount of the 2003 Bonds.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") have assigned long-term ratings of "Aaa," "AAA" and "AAA", respectively, to the 2003 Bonds. These ratings reflect (i) the delivery of the Bond Insurance Policies issued by the Bond Insurer and (ii) only the views of Moody's, S&P and Fitch. An explanation of the ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 55 Water Street, New York, New York 10004, and from Fitch at One State Street Plaza, New York, New York 10004.

The ratings are not a recommendation to buy, sell or hold any of the 2003 Bonds. There is no assurance that the ratings will remain in effect for any given period of time or that a rating will not be revised downward or withdrawn entirely by Moody's, S&P or Fitch if, in its judgment, circumstances so warrant. Any such downward

revision or withdrawal of a rating may have an adverse effect on the market price or marketability of the 2003 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Commission for the Fiscal Year ended June 30, 2003, which financial statements are the most recent available, have been audited by Katz, Sapper & Miller, independent certified public accountants, and are available upon request from the Commission. *See* "MISCELLANEOUS."

The Commission is required under the Indenture to file its annual financial statements with the Trustee.

The general purpose financial statements of the State have been audited by the State Board of Accounts and may be obtained from the State Budget Agency, State of Indiana, Statehouse, Room 212, Indianapolis, IN 46204, Attention: State Budget Director (317) 232-5610 or on the Internet at: <http://www.in.gov/idfa/pfo>. *See* APPENDIX A, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA – FISCAL POLICIES – Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State."

CONTINUING DISCLOSURE

Under the Securities and Exchange Commission's continuing disclosure requirements, the Commission and the State will enter into a Continuing Disclosure Undertaking Agreement with the Trustee, as counterparty (the "Undertaking"). For a summary of certain provisions of such Agreement, *see* APPENDIX D, "SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT."

Copies of the Undertaking are available from the Commission upon request. *See* "MISCELLANEOUS."

CERTAIN RELATIONSHIPS

Kipper Tew is a member of the Commission and a partner at Krieg DeVault LLP, Indianapolis, Indiana, Krieg DeVault LLP is serving as disclosure counsel to the State in connection with the 2003 Bonds. Mr. Tew was in attendance at the meeting of the Commission on August 13, 2003, at which the resolution authorizing the 2003 Bonds was adopted but did not vote regarding such matters.

ARITHMETICAL VERIFICATION

The arithmetical calculations determining the adequacy of the maturing principal and interest income of the United States Treasury Obligations deposited in the Escrow Funds to pay all principal of, redemption premiums, if any, and interest on the Refunded Bonds in the manner described in "PLAN OF FINANCE - Plan of Refunding," and the arithmetical calculations supporting the conclusions that the 2003 Bonds are not "arbitrage bonds" under Section 148 of the Code, reflected in the approving legal opinion of bond counsel, will be verified by Grant Thornton LLP, independent public accountants ("Verification Agent"), as a condition precedent to the delivery of the 2003 Bonds. Such computations will be based upon information, assumptions and calculations supplied to the Verification Agent by the Underwriters.

MISCELLANEOUS

Information contained in this Official Statement with respect to the Commission and the Department of Administration and copies of the Indentures, the Use and Occupancy Agreements and the Continuing Disclosure Undertaking Agreement referred to in this Official Statement may be obtained from the Indiana State Office Building Commission, Indiana Government Center South, W-478, 402 West Washington Street, Room, Indianapolis, Indiana 46204. The Commission's telephone number is (317) 232-2302.

This Official Statement is submitted in connection with the issuance and sale of the 2003 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement has been duly

authorized and approved by the Commission and duly executed and delivered on its behalf by the official signing below.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Commission are fully set forth in the Indenture in accordance with the Act. Neither any advertisement of the 2003 Bonds nor this Official Statement is to be construed as constituting a contract or agreement between the Commission and the purchasers or owners of the 2003 Bonds.

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This Official Statement has been duly approved, executed and delivered by the Commission.

INDIANA STATE OFFICE BUILDING COMMISSION

By: /s/ Marilyn F. Schultz
Secretary

November 19, 2003

Appendix A

Financial and Economic Statement for the State of Indiana

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APPENDIX A
FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA

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I. INTRODUCTION

This Financial and Economic Statement (the “Statement” and “Appendix A”) for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information is compiled on behalf of the State by the State Budget Agency and the Public Finance Office and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

This Appendix A is dated as of November 7, 2003. The State expects to update the Statement not less than annually. The status of this Statement or any updates or supplements may be obtained by contacting the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Statement should be read in its entirety, together with any supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The Treasurer of State is responsible for holding and investing all State revenues and disburses money upon warrants issued by the Auditor of State. The Treasurer of State is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The Auditor of State maintains the State’s centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most

State employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the twelve-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds. Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenues, a portion of individual income tax receipts, and a portion of Gaming Revenues described below. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTR Fund are sometimes discussed in this

Appendix A as a single, combined fund. See “FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund.”

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children’s Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds. Proprietary Funds are used to account for a government’s business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. An example is the State Office Building Commission.

Fiduciary Funds. Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees’ Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency funds are used to account for situations where the government’s role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member’s respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State’s budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee

begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bill first and sends it to the Senate for consideration.

The budget report includes: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. By statute, the Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to

another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenues.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the Treasurer of State may invest State funds. These investments generally include securities (a) that are backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and (b) issued by the United States

Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise, as well as (c) other securities specified in statute. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) and (b) above and certain deposit accounts insured by the Public Deposit Insurance Fund. No more than 25% of the total portfolio invested by the Treasurer of State may be made in securities maturing from two to five years, and no such security may have a maturity in excess of five years.

Audits

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2002 (the "2002 Financial Report") is incorporated in this Appendix A by reference. So long as the State is deemed to be an "obligated person" under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually such a financial report with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12: Bloomberg Municipal Repository, FT Interactive Data, DPC Data, Inc., and Standard & Poor's J.J. Kenny Repository.

A copy of the 2002 Financial Report may be obtained from the NRMSIRs. In addition, the 2002 Financial Report may be found at: <http://www.in.gov/idfa/pfo>.

The 2002 Financial Report that may be found at the referenced website is intended to provide financial information about the State prepared and published by the Auditor of State. It is not, by itself, intended to present investment information about any particular revenue bond issue, including the revenue bonds offered with this Appendix A, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement for a particular revenue bond issue, including the revenue bonds offered with this Appendix A.

The 2002 Financial Report that may be found at the referenced website speaks only as of its date. There should be no implication that there has been no change in the financial or other affairs of the State or any other person described in this Statement or in the 2002 Financial Report after the date of the 2002 Financial Report.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this

purpose, the combined receipts are referred to as “State Operating Revenues” and “Operating Revenues.” Operating Revenues are defined as the total of General Fund and PTR Fund revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with “DSH revenues” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenues constitute additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See “Fund Balances—Combined General and PTR Fund.”

Major General Fund and PTR Fund Revenue Sources

Sales and use and corporate and individual income taxes are the three primary sources of State Operating Revenues. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of Operating Revenues beginning in Fiscal Year 2003. Table IV-1 provides annual revenues by source and growth rates over time. The following is a summary of Operating Revenues.

Sales and Use Taxes. The 2002 General Assembly, meeting in Special Session, increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. Prior to the 2002 increase, the sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective Calendar Year 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25.0 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25.0 million and \$50.0 million, 25% of receipts between \$50.0 million and \$75.0 million, 30% of receipts between \$75.0 million and \$150.0 million, and 35% of adjusted gross receipts in excess of

\$150.0 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33.0 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3%.

Revenue History

Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1. The table also includes actual revenue for prior Fiscal Years as well as forecasted revenue for Fiscal Years 2003, 2004 and 2005.

Table IV-1
State Operating Revenues
(Millions of Dollars)

	<u>Sales Tax</u>	<u>Individual Income</u>	<u>Corporate Income</u>	<u>Wagering Tax</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
FY 1998 ⁽²⁾	3,250.9	3,434.8	1,015.5	N/A	720.2	8,421.4
FY 1999 ⁽²⁾	3,396.0	3,699.3	1,044.4	N/A	743.5	8,883.2
FY 2000 ⁽²⁾	3,651.4	3,753.3	985.3	N/A	752.7	9,142.7
FY 2001 ⁽²⁾	3,686.8	3,779.8	855.3	N/A	730.1	9,052.0
FY 2002 ⁽²⁾	3,761.4	3,540.8	709.4	N/A	697.2	8,708.9
FY 2003 ⁽²⁾	4,172.4	3,644.2	729.2	430.7	903.6	9,880.1
FY 2004 ⁽³⁾	4,883.0	3,839.2	558.8	537.0	874.5	10,692.5
FY 2005 ⁽³⁾	5,122.1	4,033.0	578.4	591.3	867.5	11,192.3
<u>% Change from Prior Year</u>						
FY 1999 ⁽²⁾	4.5%	7.7%	2.8%		3.2%	5.5%
FY 2000 ⁽²⁾	7.5%	1.5%	-5.7%		1.2%	2.9%
FY 2001 ⁽²⁾	1.0%	0.7%	-13.2%		-3.0%	-1.0%
FY 2002 ⁽²⁾	2.0%	-6.3%	-17.1%		-4.5%	-3.8%
FY 2003 ⁽²⁾	10.9%	2.9%	2.8%	N/A	29.6%	13.4%
FY 2004 ⁽³⁾	17.0%	5.4%	-23.4%	24.7%	-3.2%	8.2%
FY 2005 ⁽³⁾	4.9%	5.0%	3.5%	10.1%	-0.8%	4.7%

⁽¹⁾ See "Major General Fund and PTR Fund Revenue Sources—Other Operating Revenue."

⁽²⁾ Actual, but unaudited Operating Revenues.

⁽³⁾ Forecasted Operating Revenues. The forecasted Operating Revenues are adjusted to reflect the tax increases enacted in 2002, which include a sales tax increase from 5% to 6%, effective December 1, 2002; a cigarette tax increase from \$0.155 to \$0.555, effective July 1, 2002; and wagering tax increases, effective July 1, 2002. A portion of wagering tax revenues are deposited in the PTR Fund. See "Financial Results of Operations."

Source: State Budget Agency

Lottery and Gaming Revenues

By statute, certain revenues from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of

\$250.0 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250.0 million is to remain in the PTR Fund. For a description of wagering taxes, *see* “Major General Fund and PTR Fund Revenue Sources—Wagering Tax.”

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities. All lottery and gaming revenues deposited to BIF are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million for Fiscal Year 2003.

For Fiscal Year 2003, Gaming Revenues totaling \$607.8 million were collected by the State from the following sources:

Hoosier Lottery	\$168.7 million
Riverboat gaming	430.7 million
Horse racing	3.0 million
Charity gaming	4.5 million
Interest earnings	0.9 million

Source: State Budget Agency

Operating Expenditures

The General Assembly appropriated \$22,786.5 million of General Fund and PTR Fund revenues for Fiscal Years 2004 and 2005. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State’s five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and Correction. These five categories constitute approximately 86.2% of all appropriations for Fiscal Years 2004 and 2005. Table IV-2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 1998 through 2005.

**Table IV-2
Expenditures and Appropriations**

	<u>Local School Aid</u>	<u>Property Tax Relief</u>	<u>Higher Education</u>	<u>Medicaid</u>	<u>Correction</u>	<u>Other</u>	<u>Total</u>
FY 1998 ⁽¹⁾	3,423.1	873.3	1,180.5	913.3	403.9	1,504.3	8,298.4
FY 1999 ⁽¹⁾	3,691.8	946.7	1,248.0	948.5	410.9	1,802.4	9,048.3
FY 2000 ⁽¹⁾	3,894.0	1,078.6	1,331.5	986.1	473.5	1,829.8	9,593.5
FY 2001 ⁽¹⁾	4,172.8	1,220.0	1,331.3	1,110.9	547.2	1,635.5	10,017.7
FY 2002 ⁽¹⁾	3,889.5	1,209.9	1,294.7	1,138.0	582.1	1,592.9	9,707.1
FY 2003 ⁽²⁾	4,230.3	1,755.8	1,400.3	1,248.8	577.5	1,590.6	10,803.3
FY 2004 ⁽³⁾	4,253.6	2,115.2	1,474.4	1,266.4	589.3	1,581.9	11,280.7
FY 2005 ⁽³⁾	4,302.5	2,243.9	1,527.7	1,266.4	591.4	1,573.9	11,505.8

% Change from Prior Year

FY 1999 ⁽¹⁾	7.8%	8.4%	5.7%	3.9%	1.7%	19.8%	9.0%
FY 2000 ⁽¹⁾	5.5%	13.9%	6.7%	4.0%	15.2%	1.5%	6.0%
FY 2001 ⁽¹⁾	7.2%	13.1%	0.0%	12.7%	15.6%	-10.6%	4.4%
FY 2002 ⁽¹⁾	-6.8%	-0.8%	-2.7%	2.4%	6.4%	-2.6%	-3.1%
FY 2003 ⁽²⁾	8.8%	45.1%	8.2%	9.7%	-0.8%	-0.1%	11.3%
FY 2004 ⁽³⁾	0.6%	20.5%	5.3%	1.4%	2.0%	-0.5%	4.4%
FY 2005 ⁽³⁾	1.1%	6.1%	3.6%	0.0%	0.4%	-0.5%	2.0%

⁽¹⁾ Actual, but unaudited expenditures.

⁽²⁾ Estimated, but unaudited expenditures.

⁽³⁾ Actual appropriations as made by the 2003 Session of the General Assembly under HEA 2003-1001.
See "Financial Results of Operations."

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State will now provide approximately 85% of the school corporations' general fund budgets. See "Operating Expenditures—Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis will increase by an average of 3.5% for Fiscal Year 2004 and 1.1% for Fiscal Year 2005 when compared to Fiscal Year 2003 appropriations, with each school corporation receiving a guaranteed minimum increase of 1% in tuition support. Combined local school aid expenditures for Fiscal Year 2002 from the Combined General and PTR Fund totaled \$3,889.5 million, a decrease of 6.8% from Fiscal Year 2001, and constituted 40.1% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making local school aid payments in Fiscal Year 2002. Combined local school aid appropriations for Fiscal Year 2003 from the Combined General and PTR Fund total \$4,241.3 million, an increase of 1.4% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$4,230.3 million. Local school aid appropriations for Fiscal Year 2004 from the Combined General and PTR Fund total \$4,253.6 million, an increase of 0.3% from Fiscal Year 2003 appropriations. Local school aid appropriations for Fiscal Year 2005 from the Combined General and PTR Fund total \$4,302.5 million, an increase of 1.1% from Fiscal Year 2004. See "Financial Results of Operations."

Property Tax Relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit, which reduces residential property taxes by 10%. Property tax relief is payable from the PTR Fund. Such

expenditures for Fiscal Year 2002 totaled \$1,209.9 million, a decrease of 0.8% from Fiscal Year 2001, and constituted 12.5% of Combined General and PTR Fund expenditures for Fiscal Year 2002 for this category. Actual expenditures for property tax relief in Fiscal Year 2002 constituted 102.6% of appropriations. This increase in expenditures is a result of changes to the Property Tax Relief Credit, increasing the Homestead Credit to 20%, and increasing local school aid. Property tax relief appropriations for Fiscal Year 2003 totaled \$1,731.4 million, an increase of 46.8% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$1,755.8 million, making property tax relief the second largest operating expenditure. Property tax relief appropriations for Fiscal Year 2004 total \$2,115.2 million, an increase of 22.2% from Fiscal Year 2003. Property tax relief appropriations for Fiscal Year 2005 total \$2,243.9 million, an increase of 6.1% from Fiscal Year 2004.

Legislation passed in 2002 replaces the PTR Credits with a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. See "Operating Expenditures—Local School Aid."

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech State College, Purdue University, University of Southern Indiana and Vincennes University. Expenditures for higher education for Fiscal Year 2002 totaled \$1,294.7 million, a decrease of 2.7% from Fiscal Year 2001, and constituted 13.3% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making higher education aid payments in Fiscal Year 2002. Higher education appropriations for Fiscal Year 2003 total \$1,411.1 million, an increase of 0.01% when compared to Fiscal Year 2002; however, estimated expenditures for Fiscal Year 2003 are \$1,400.3 million, making higher education the third largest operating expenditure. Higher education appropriations for Fiscal Year 2004 total \$1,474.4 million, an increase of 4.5% from Fiscal Year 2003. Higher education appropriations for Fiscal Year 2005 total \$1,527.7 million, an increase of 3.6% from Fiscal Year 2004. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. See "Financial Results of Operations" and "STATE INDEBTEDNESS."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. State General Fund expenditures for Medicaid for Fiscal Year 2002 totaled \$1,138.0 million, an increase of 2.4% from Fiscal Year 2001, and constituted 11.7% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Medicaid in Fiscal Year 2002 constituted 97.2% of appropriations for the category. Medicaid appropriations for Fiscal Year 2003 from the General Fund total \$1,248.8 million, an increase of 6.6% from Fiscal Year 2002. Estimated expenditures for Medicaid in Fiscal Year 2003 are \$1,248.8 million. Medicaid appropriations for each of Fiscal Year 2004 and Fiscal Year 2005 from the General Fund are \$1,266.4 million, an increase of 1.4% from Fiscal Year 2003.

In Fiscal Year 2002, 32.7% of Medicaid spending was funded from the General Fund. State dedicated funds and Federal funds constitute the balance of Medicaid spending. Nursing home care is the largest component of total Medicaid spending (State and Federal), about \$827.0 million for Fiscal Year 2002, an increase of 2.6% from Fiscal Year 2001. Prescription drug costs are the second largest, and fastest growing, component of total Medicaid spending, with costs of \$627.7 million in Fiscal Year 2002, an increase of 18.9% from Fiscal Year 2001. Hospital services is the third largest component of total Medicaid spending, about \$574.4 million for Fiscal Year 2002, a decrease of 0.2% from Fiscal Year 2001.

Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment steadily increased from 454,643 people in 1998 to 737,036 people in 2002, or by 62.1%.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. State General Fund expenditures for Correction for Fiscal Year 2002 totaled \$582.1 million, an increase of 6.4% from Fiscal Year 2001, and constituted 6.0% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Correction in Fiscal Year 2002 constituted 102.9% of appropriations for this category. This increase is a result of transferring the medical services fund from the State Family and Social Services Agency to the Department of Correction. Correction appropriations for Fiscal

Year 2003 total \$569.0 million, an increase of 0.5% from Fiscal Year 2002. Estimated expenditures for Correction for Fiscal Year 2003 are \$577.5 million. Correction appropriations for Fiscal Year 2004 total \$589.3 million, an increase of 3.6% from Fiscal Year 2003. Correction appropriations for Fiscal Year 2005 total \$591.4 million, an increase of 0.4% from Fiscal Year 2004.

Population is one of the most significant drivers of Correction expenditures. Correctional population steadily increased from 19,720 in 1998 to 23,172 in 2002, or by 17.5%. Population is projected to increase 9.7% by the end of Fiscal Year 2005.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. General Fund expenditures for all other expenditure categories for Fiscal Year 2002 totaled \$1,592.9 million, a decrease of 2.6% from Fiscal Year 2001, and constituted 16.4% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Other Categories in Fiscal Year 2002 constituted 93.7% of appropriations for the category. Other Categories appropriations for Fiscal Year 2003 from the General Fund total \$1,872.5 million, an increase of 10.2% from Fiscal Year 2002. Other Categories appropriations for Fiscal Year 2004 from the General Fund total \$1,581.9 million, a decrease of 15.5% from Fiscal Year 2003. Estimated expenditures for Fiscal Year 2003 are \$1,590.6 million. Other Categories appropriations for Fiscal Year 2005 from the General Fund total \$1,573.9 million, a decrease of 0.5% from Fiscal Year 2004.

Expenditure Limits. In 2002, the General Assembly enacted a law to establish that the maximum annual percentage change in State government expenditures be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenues to local governments, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income and six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The spending cap limits expenditure increases to 3.5% per annum for each of Fiscal Year 2004 and Fiscal Year 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time

to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. See "Financial Results of Operations."

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. See Table IV-3 for Rainy Day Fund balances and information about loans made from the Rainy Day Fund.

Tuition Reserve. The Tuition Reserve is a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. See Table IV-3 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Medicaid Reserve is currently unfunded; in 2001, the General Assembly authorized the money in the Medicaid Reserve to be used to fund Medicaid obligations during Fiscal Years 2002 and 2003. See Table IV-3 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenues from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (1) replace local property tax levies ("PTR Credits"), which were reduced through PTR Credits under the same statute that created the PTR Fund; and (2) fund local school aid. To the extent the PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes discussed in this Statement as a single, combined fund.

Financial Results of Operations

Fiscal Years 2002 and 2003. The General Assembly passed a State budget for Fiscal Years 2002 and 2003 that called for Combined General and PTR Fund spending of \$10,211.9 million in Fiscal Year 2002 (an increase of 1.6% from FY 2001), and \$10,497.8 million in Fiscal Year 2003 (an increase of 2.8% from FY 2002). However, as the national economic recession took hold, forecasted Operating Revenue was hard hit. The recession effectively erased approximately \$1,640.0 million of forecasted Operating Revenue during Fiscal Years 2002 and 2003. (Forecasted Operating Revenue does not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated or authorized to be used for budget purposes.)

Fiscal Year 2002. To address the revenue shortfall and fund the budget in Fiscal Year 2002, the State administration used general statutory authority and measures specifically authorized in the biennial budget, including transfers from the following funds and accounts to the General Fund:

Lottery and Gaming Surplus Account	\$200.0 million
Rainy Day Fund	277.1 million
Medicaid Reserve and Contingency Fund	100.0 million

In addition, the Finance Board authorized transfers from a number of dedicated funds and accounts to the General Fund and the PTR Fund:

Build Indiana Fund	\$247.5 million
Veterans Memorial School Construction Fund	37.0 million
State Highway Fund	30.0 million
Other Dedicated Funds, Accounts	127.0 million

(All but \$45.2 million of the \$441.5 million of Finance Board-authorized transfers were used in Fiscal Year 2002.)

The State also delayed making \$373.8 million of local school aid and higher education payments in Fiscal Year 2002.

In addition to the transfers and payment delays, the State administration required agencies to cut their operating budgets by 7% and implemented hiring and salary freezes, resulting in \$145.1 million of reduced spending in Fiscal Year 2002 (excluding reductions in forecasted Medicaid spending).

At the end of Fiscal Year 2002, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$534.2 million or 6.1% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund). *See* Table IV-3 for actual Fiscal Year 2002 results, including actual Operating Revenue, transfers and fund balances.

Fiscal Year 2003. Near the end of Fiscal Year 2002, the General Assembly met in Special Session and passed HEA 2002-1001 (ss), which included a then estimated \$559.7 million in budget relief as well as substantial tax restructuring. Higher sales and use taxes and increased taxes on gaming and tobacco products were designed to address the revenue shortfall, fund the budget and offset much of the cost of the tax restructuring. Streamlined corporate income taxes and the phase out of personal property taxation of business inventories were designed to encourage business investment. Additional property tax relief for homeowners was expected to reduce the potentially negative effects of the state-wide property tax reassessment, which is underway. (Tax restructuring will increase future Combined General and PTR Fund expenditures, especially for property tax relief, in the future.)

Even taking into account forecasted increases in Operating Revenue resulting from the enactment of HEA 2002-1001 (ss), the Fiscal Year 2003 budget continued to be out of balance. The soft economy, threat of war, war and worse than normal winter weather resulted in lower than forecasted sales and use tax revenues. The State administration again used general statutory authority and measures specifically authorized in the biennial budget to reduce the budget deficit, including fund and account transfers, payment delays (another \$336.7 million in Fiscal Year 2003) and spending cuts. The Budget Agency achieved Fiscal Year 2003 reversions totaling \$323.4 million through reduced spending by State agencies (including holding Medicaid spending to below forecast), and elimination of unspent capital and operating accounts. By the end of Fiscal Year 2003, the State administration reduced Medicaid spending from forecast by \$250.0 million.

At the end of Fiscal Year 2003, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$720.1 million or 7.2% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund).

The reserves were higher than estimated at the end of the 2003 session of the General Assembly because the State received \$103.4 million in new federal aid, and delayed property reassessment in many Indiana counties meant that property tax relief payments were lower by \$101.1 million. The \$101.1 million is expected to be paid to the counties in Fiscal Year 2004.

During Fiscal Year 2003, Indiana received 13.4% more Operating Revenue than it received in Fiscal Year 2002. When revenue generated by tax increases enacted by the General Assembly in June 2002 is subtracted, revenue grew by 1.5%. Growth in Operating Revenue in Fiscal Year 2003 ended a two Fiscal Year period in which actual Operating Revenue decreased.

See Table IV-3 for actual Fiscal Year 2003 results, including State Operating Revenue, transfers and fund balances.

Fiscal Years 2004 and 2005. The General Assembly passed a State budget for Fiscal Years 2004 and 2005 that calls for Combined General and PTR Fund spending of \$11,280.7 million in Fiscal Year 2004 (an increase of 1.9% from Fiscal Year 2003) and \$11,505.8 million in Fiscal Year 2005 (an increase of 2.0% from Fiscal Year 2004).

The biennial budget was based on forecasted Fiscal Year 2004 revenue of \$10,692.5 million (an increase of 8.2% from final forecasted Fiscal Year 2003 revenue) and forecasted Fiscal Year 2005 revenue of \$11,192.3 million (an increase of 4.7% from forecasted Fiscal Year 2004 revenue). The forecasted revenue increase for Fiscal Year 2004 reflects the implementation of the Fiscal Year 2002 tax increases and expected improvements in the national economy, while the revenue increase for Fiscal Year 2005 primarily reflects expected improvements in the national economy. (If the implementation of the Fiscal Year 2002 tax increases were not taken into account, the increase in forecasted revenue for Fiscal Year 2004 would be 3.1% from final forecasted Fiscal Year 2003 revenue.)

The General Assembly continues to authorize more spending than forecasted Operating Revenues would permit. To balance the budget, the General Assembly authorized the transfer of dedicated funds to the General Fund or the PTR Fund, including:

Rainy Day Fund	\$220.0 million
Pension Stabilization Fund	380.0 million
Public Deposit Insurance Fund	50.0 million
Other Dedicated Funds	57.0 million

In addition, the General Assembly specifically authorized the Budget Agency, with the approval of the Governor and after Budget Committee review, (a) "to withhold allotments of any or all appropriations . . . , if it is considered necessary . . . to prevent a deficit financial situation" and (b) transfer from the Rainy Day Fund to the General Fund "an amount necessary to maintain a positive balance" in the General Fund. (Rainy Day Fund balances may not be sufficient to provide further budget relief.)

Funding the State share of Medicaid assistance and Department of Correction needs are two of the challenges the State administration confronts in managing the budget for Fiscal Years 2004 and 2005. The General Assembly effectively maintained Medicaid appropriations for Fiscal Years 2004 and 2005 at Fiscal Year 2003 levels and limited growth in Correction appropriations for the budget biennium. However, \$168.0 million of new federal aid will benefit the Medicaid program in Fiscal Year 2004. In addition, another \$103.4 million of federal aid is expected to be available in Fiscal Year 2004 for limited budget relief.

At the end of Fiscal Year 2004, the Budget Agency estimates that the State's Total Combined Balance will be \$577.9 million or 5.3% of Operating Revenue. At the end of Fiscal Year 2005, the Budget Agency estimates that the State's Total Combined Balance will be \$516.0 million or 4.6% of Operating Revenue. See Table IV-3 for estimated Fiscal Year 2004 and Fiscal Year 2005 results, including estimated State Operating Revenues, transfers and fund balances.

Table IV-3 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenues and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2002 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years, as applicable. Forecasted revenue was developed by the Technical Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were

developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2004 and 2005.

First Quarter Fiscal Year 2004 Revenue

At the end of the first quarter of Fiscal Year 2004 ("First Quarter 2004"), Operating Revenue was \$128.2 million below forecasted revenue. Sales and use, individual income, corporate income and gaming tax and Other Operating revenue was all below forecast, but in varying degrees, as follows:

Sales and use	\$66.2 million (or 5.3% below forecast)
Individual income	28.2 million (3.0%)
Corporate income	15.1 million (11.7%)
Gaming	1.3 million (1.9%)
Other Operating	17.2 million (7.6%)

When compared with the first quarter of Fiscal Year 2003 ("First Quarter 2003"), the State saw substantial growth in sales and use tax, individual income tax and gaming tax revenue during First Quarter 2004, as follows:

Sales and use	\$194.4 million (an increase of 19.8%)
Individual income	19.3 million (2.2%)
Gaming	19.9 million (40.2%)

Increases in sales and use tax and gaming tax revenue primarily reflect the increased sales and use tax rate (effective December 1, 2002) and restructuring of wagering taxes (effective July 1, 2002).

When compared with First Quarter 2003, First Quarter 2004 corporate income tax and Other Operating revenue declined by \$18.1 million (or 13.7%) and \$47.4 million (or 18.5%), respectively. Corporate income taxation was also restructured in Fiscal Year 2002, effective January 1, 2003. In the Other Operating revenue category, miscellaneous revenue was hardest hit.

Overall, the State collected \$167.8 million (or 7.3%) more revenue in First Quarter 2004 than it collected in First Quarter 2003. See "Major General Fund and PTR Fund Revenue Sources."

The Budget Agency advised State agencies receiving General Fund appropriations that it will reduce through the allotment process (i) 5.0% of each agency's appropriation for Fiscal Years 2004 and 2005, and (ii) 50.0% of each agency's appropriation for repair and rehabilitation expenditures for such Fiscal Years. This Budget Agency advice is not applicable to Medicaid program or Correction expenditures. As counties complete property reassessment, the State is seeing increases in property tax relief payments. At present, the Budget Agency estimates an additional \$75.0 million in property tax relief expenditures in Fiscal Year 2004.

The State is now considering additional options for reduced State spending during Fiscal Years 2004 and 2005.

Table IV-3
General Fund and Property Tax Replacement Fund
Combined Statement of New Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	Actual FY2003	(1) Estimated FY2004	(1) Estimated FY2005
Resources					
Working Balance on July 1	832.6	18.6	0.0	136.6	0.2
Current Year Resources					
Forecast Revenue	9,052.0	8,708.9	9,880.1	10,692.5	11,192.3
DSH Revenue	70.9	87.0	65.0	56.8	57.7
HEA 1001-2003 ⁽¹⁾	-	-	-	105.6	42.8
Other Revenue Sources of Transfers In					
Jobs & Growth Tax Relief Reconciliation Act of 2003	-	-	103.4	103.4	-
Jobs & Growth Tax Relief Reconciliation Act of 2003 (Medicaid)	-	-	-	168.0	-
Transfer from Lottery & Gaming Surplus Acct (BIF)	-	200.0	175.0	-	-
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	222.0	134.0	56.9
Transfer From (To) Rainy Day Fund	46.3	277.1	-	10.0	66.0
Total Current Year Resources	9,272.6	9,769.3	10,445.5	11,270.3	11,415.7
Total Resources	10,105.2	9,787.9	10,445.5	11,406.9	11,415.9
Uses: Appropriations, Expenditures and Reversions					
Appropriations					
Budgeted Appropriations	10,159.3	10,211.9	11,000.1	11,280.7	11,505.8
Adjustments to Appropriations ⁽²⁾	(15.7)	93.1	22.7	-	-
Deficiency Appropriations	66.8	0.1	19.4	-	-
Appropriations Transfer (FY 2000 capital appropriations)	(88.3)	-	-	-	-
Medicaid Shortfall	58.5	-	-	60.2	107.8
Higher Education, HEA 1196 – 2002	-	-	(29.0)	-	-
K-12 Education, HEA 1196 – 2002	-	-	(119.1)	-	-
Total Appropriations	10,180.6	10,305.1	10,894.0	11,340.9	11,613.6
Other Expenditures and Transfers					
Transfer to Lottery and Gaming Surplus Acct (BIF) (MVET)	-	-	131.8	-	-
Transfer to Tuition Reserve	-	-	40.0	-	-
Undistributed PTRC and Homestead Credit	-	-	(101.1)	101.1	-
Judgments and Settlements ⁽³⁾	7.0	3.8	6.2	15.0	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	10,970.9	11,457.0	11,621.6
Payment Delays					
Higher Education Allotment	-	(94.2)	(2.2)	(2.2)	(2.9)
Tuition Support Distribution	-	(279.5)	(20.0)	(3.2)	(3.8)
Property Tax Replacement Credit	-	-	(314.5)	(20.0)	(13.8)
Reversions	(102.9)	(145.1)	(323.4)	(25.0)	(185.4)
Total Net Uses	10,084.7	9,790.1	10,310.7	11,406.6	11,415.7
Auditor's Adjustment	1.9	(2.2)	(1.8)	-	-
General Fund Reserve Balance at June 30	18.6	0.0	136.6	0.2	0.2
Reserved Balances					
Medicaid Reserve	100.0	-	-	-	-
Tuition Reserve	265.0	265.0	305.0	305.0	305.0
Rainy Day Fund ⁽⁴⁾	526.0	269.2	278.5	272.7	210.8
Total Combined Balances	909.6	534.2	720.1	577.9	516.0
Payment Delay Liability	-	(373.8)	(710.5)	(735.9)	(756.4)
Combined Balance as a Percent of Operating Revenue	10.0%	6.1%	7.2%	5.3%	4.6%
Totals may not add as a result of rounding.					

- ¹ Forecasted revenue is based on information provided by the Technical Forecast Committee, while other resources and uses are estimated by the Budget Agency. The resources identified in the HEA 1001-2003 line result from actions authorized by the General Assembly pursuant to HEA 1001-2003, the State budget for Fiscal Years 2004 and 2005. See "Financial Results of Operations."
- ² Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total. FY 2003 includes an additional appropriation of \$135.0 million for motor vehicle excise tax-related obligations not met through the Lottery and Gaming Surplus Account.
- ³ Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. See "LITIGATION."
- ⁴ Includes \$31.0 million of loans to local governments authorized by the General Assembly. The loans are illiquid.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the State Office Building Commission, the Indiana Transportation Finance Authority and the Recreational Development Commission, which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the "Building Commission") is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure

or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; (f) providing communications system infrastructure; and (g) providing laboratory facilities.

Pursuant to this general authority, as well as specific findings of need and authorizations by the General Assembly, the Building Commission has issued revenue bonds to finance or refinance various projects. For a list of the indebtedness of the Building Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for authorized projects through issuance and sale of “Hoosier Notes.” Hoosier Notes are payable from proceeds of revenue bonds issued by the Building Commission.

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. For a list of the indebtedness of the TFA for Highway Financing, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA has issued revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). For a list of the indebtedness of the TFA for Airport Facilities, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. In addition, the TFA issued revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. For a list of the indebtedness of the TFA for the Aviation Technology Center, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing” and Table V-5.

Recreational Development Commission. The Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State’s Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission has issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the "Park Projects"). For a list of the indebtedness of the Recreation Commission, *see* "Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations."

Bond Bank. The Indiana Bond Bank issued two series of bonds which are also payable from possible State appropriations. Proceeds of these issues were used to finance or refinance State interests or initiatives, including the State's Animal Disease and Diagnostic Laboratory ("ADDL") at Purdue University, West Lafayette, and the Columbus Learning Center ("CLC"), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. *See* "Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations."

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* "Contingent Obligations—Indiana Bond Bank" and Table V-5.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, long-term debt that is subject to possible State appropriations as of June 30, 2003. *See* "Debt Issued in Fiscal Year 2004" and "Authorized but Unissued Debt."

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations

Issuer/Series	Original Par Amount	Ending Balance 6/30/02	(Redeemed)/ Issued	Ending Balance 6/30/03
Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 9,804,613	\$ (621,304)	\$ 9,183,309
Series 1993A	42,410,000	31,285,000	(2,145,000)	29,140,000
Subtotal	\$ 69,079,824	\$ 41,089,613	\$ (2,766,304)	\$ 38,323,309
Government Center North				
Series 1990B	\$ 77,123,542	\$ 30,411,503	\$ (1,926,882)	\$ 28,484,621
Series 1993B	107,555,000	85,085,000	(4,335,000)	80,750,000
Subtotal	\$ 184,678,542	\$ 115,496,503	\$ (6,261,882)	\$ 109,234,621
Government Center South				
Series 1990C	\$ 18,063,800	\$ 6,636,090	\$ (419,800)	\$ 6,216,290
Series 1990D	110,675,000	53,710,000	-	53,710,000
Series 1993C	28,440,000	8,675,000	(440,000)	8,235,000
Series 2000B	43,400,000	42,700,000	(6,600,000)	36,100,000
Subtotal	\$ 200,578,800	\$ 111,721,090	\$ (7,459,800)	\$ 104,261,290
Other Facilities				
Series 1995A	\$ 54,025,000	\$ 52,335,000	\$ (470,000)	\$ 51,865,000
Series 1995B	47,975,000	44,145,000	(1,390,000)	42,755,000
Series 1998A	93,020,000	90,570,000	(4,265,000)	86,305,000
Series 1999A	96,785,000	90,910,000	(3,255,000)	87,655,000
Series 2000A	44,800,000	43,200,000	(1,600,000)	41,600,000
Series 2001A	66,600,000	66,600,000	-	66,600,000
Series 2002A	128,110,000	128,110,000	-	128,110,000
Series 2003A	83,530,000	-	83,530,000	83,530,000
Subtotal	\$ 614,845,000	\$ 515,870,000	\$ 72,550,000	\$ 588,420,000
TOTAL SOBC	\$ 1,069,182,166	\$ 784,177,206	\$ 56,062,014	\$ 840,239,220
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 34,343,617	\$ (1,642,740)	\$ 32,700,877
Series 1992A	74,035,000	35,285,000	-	35,285,000
Series 1993A	193,531,298	139,181,298	(7,290,000)	131,891,298
Series 1996B	27,110,000	25,950,000	(2,715,000)	23,235,000
Series 1998A	175,360,000	172,250,000	(3,240,000)	169,010,000
Series 2000A	269,535,000	269,535,000	(2,500,000)	267,035,000
Subtotal	\$ 812,069,689	\$ 676,544,915	\$ (17,387,740)	\$ 659,157,175
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 46,400,000	\$ (6,325,000)	\$ 40,075,000
Series 1995A	29,720,000	26,705,000	(970,000)	25,735,000
Series 1996A	137,790,000	137,045,000	(795,000)	136,250,000
Subtotal	\$ 368,830,000	\$ 210,150,000	\$ (8,090,000)	\$ 202,060,000
Aviation Technology Bonds				
Series 2002A	\$ 10,095,000	\$ 10,095,000	\$ -	\$ 10,095,000
Subtotal	\$ 10,095,000	\$ 10,095,000	\$ -	\$ 10,095,000
TOTAL TFA	\$ 1,190,994,689	\$ 896,789,915	\$ (25,477,740)	\$ 871,312,175
Recreation Commission				
Series 1994	\$ 19,285,000	\$ 18,300,000	\$ (10,525,000)	\$ 7,775,000
Series 1997	6,600,000	5,780,000	(225,000)	5,555,000
Series 2002	14,400,000	-	14,400,000	14,400,000
Subtotal	\$ 40,285,000	\$ 24,080,000	\$ 3,650,000	\$ 27,730,000
TOTAL RDC	\$ 40,285,000	\$ 24,080,000	\$ 3,650,000	\$ 27,730,000
Bond Bank				
Series 1998B (ADDL)	\$ 10,830,000	\$ 7,980,000	\$ (695,000)	\$ 7,285,000
Series 2003D (CLC)	27,515,000	-	27,515,000	27,515,000
Subtotal	\$ 38,345,000	\$ 7,980,000	\$ 26,820,000	\$ 34,800,000
TOTAL BOND BANK	\$ 38,345,000	\$ 7,980,000	\$ 26,820,000	\$ 34,800,000
TOTAL ALL BONDS	\$ 2,338,806,855	\$ 1,713,027,121	\$ 61,054,274	\$ 1,774,081,395

Source: State Budget Agency (as of June 30, 2003)

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2003. *See* “Debt Issued in Fiscal Year 2004” and “Authorized but Unissued Debt.”

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**Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations**

Issuer/Series	FY 2004	FY 2005	FY 2006	FY 2007	Thereafter
Building Commission					
Government Center Parking					
Series 1990A	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 12,817,575
Series 1993A	3,689,981	3,683,284	3,678,836	3,677,211	23,146,136
Subtotal	\$ 5,638,031	\$ 5,631,334	\$ 5,626,886	\$ 5,625,261	\$ 35,963,711
Government Center North					
Series 1990B	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 39,757,920
Series 1993B	8,597,976	8,592,396	8,581,026	8,575,276	76,765,608
Subtotal	\$ 14,639,856	\$ 14,634,276	\$ 14,622,906	\$ 14,617,156	\$ 116,523,528
Government Center South					
Series 1990C	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 8,677,975
Series 1990D	3,705,990	3,705,990	3,705,990	10,976,205	54,570,400
Series 1993C	878,780	875,738	876,105	874,980	7,824,708
Series 2000B ⁽¹⁾	8,686,500	8,461,500	8,319,000	976,500	18,873,000
Subtotal	\$ 14,588,360	\$ 14,360,318	\$ 14,218,185	\$ 14,144,775	\$ 89,946,083
Other Facilities					
Series 1995A	\$ 3,321,861	\$ 3,322,248	\$ 3,321,149	\$ 3,322,998	\$ 79,942,718
Series 1995B	3,853,508	3,853,695	3,849,435	3,850,360	53,381,168
Series 1998A	8,572,990	8,560,298	8,554,491	8,530,004	85,061,567
Series 1999A	7,869,119	7,857,575	7,853,675	7,844,163	101,300,106
Series 2000A ⁽¹⁾	4,102,500	4,000,500	3,993,000	3,979,500	49,312,500
Series 2001A ⁽¹⁾	5,703,120	5,675,488	5,662,877	5,637,321	89,830,375
Series 2002A	8,042,401	8,399,019	8,390,986	10,905,493	173,182,367
Series 2003A	4,055,246	5,389,921	5,388,671	6,879,259	115,804,509
Subtotal	\$ 45,520,745	\$ 47,058,743	\$ 47,014,284	\$ 50,949,096	\$ 747,815,310
TOTAL SOBC	\$ 80,386,992	\$ 81,684,671	\$ 81,482,262	\$ 85,336,288	\$ 990,248,632
TFA					
Highway Revenue Bonds					
Series 1990A	\$ 6,150,288	\$ 6,150,288	\$ 4,255,288	\$ 4,095,288	\$ 41,850,200
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	51,510,990
Series 1993A	13,848,263	13,858,773	12,608,425	12,608,850	177,775,413
Series 1996B	3,989,708	3,981,450	3,961,450	3,958,550	11,826,375
Series 1998A	12,108,846	12,088,328	18,669,828	18,676,448	195,526,939
Series 2000A	17,097,176	16,982,801	14,425,301	14,425,301	478,131,481
Subtotal	\$ 55,593,661	\$ 55,461,020	\$ 56,319,672	\$ 56,163,816	\$ 956,621,397
Airport Facilities Bonds					
Series 1992A	\$ 9,385,525	\$ 9,704,613	\$ 10,040,600	\$ 10,026,875	\$ 25,158,438
Series 1995A	2,469,868	2,512,723	2,558,995	2,558,945	27,955,338
Series 1996A	8,219,933	8,220,583	8,218,060	17,213,900	155,974,650
Subtotal	\$ 20,075,326	\$ 20,437,919	\$ 20,817,655	\$ 20,799,720	\$ 209,088,426
Aviation Technology Bonds					
Series 2002A	\$ 685,565	\$ 955,765	\$ 955,495	\$ 952,614	\$ 10,491,916
Subtotal	\$ 685,565	\$ 955,765	\$ 955,495	\$ 952,614	\$ 10,491,916
TOTAL TFA	\$ 76,354,552	\$ 76,854,704	\$ 78,092,822	\$ 77,916,150	\$ 1,176,201,739
Recreation Commission					
Series 1994	\$ 632,960	\$ 648,008	\$ 661,595	\$ 678,483	\$ 10,211,011
Series 1997	525,333	523,869	521,616	523,555	6,218,195
Series 2002	642,696	608,870	887,400	1,333,118	17,601,638
Subtotal	\$ 1,800,989	\$ 1,780,747	\$ 2,070,611	\$ 2,535,156	\$ 34,030,844
TOTAL RDC	\$ 1,800,989	\$ 1,780,747	\$ 2,070,611	\$ 2,535,156	\$ 34,030,844
Bond Bank					
Series 1998B (ADDL)	\$ 1,043,475	\$ 1,042,434	\$ 1,044,740	\$ 1,039,845	\$ 4,695,085
Series 2003D (CLC)	805,644	1,306,450	1,306,450	1,306,450	42,800,306
Subtotal	\$ 1,849,119	\$ 2,348,884	\$ 2,351,190	\$ 2,346,295	\$ 47,495,391
TOTAL BOND BANK	\$ 1,849,119	\$ 2,348,884	\$ 2,351,190	\$ 2,346,295	\$ 47,495,391
TOTAL ALL BONDS	\$ 160,391,652	\$ 162,669,006	\$ 163,996,885	\$ 168,133,889	\$ 2,247,976,606

⁽¹⁾ Debt service on variable rate debt is determined by assuming an interest rate cap of 6%.

Source: State Budget Agency (as of June 30, 2003)

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past nine years are reflected in Table V-3. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

Fiscal Year	Population	Personal Income ⁽¹⁾	Outstanding Debt Subject to Appropriation	Debt/Capita ⁽²⁾	Debt/Income ⁽³⁾
1993	5,739,019	\$ 114,675	\$ 1,001,051,854	\$ 174	0.9%
1994	5,793,526	121,537	1,030,787,646	178	0.8
1995	5,851,459	126,525	1,036,962,646	177	0.8
1996	5,906,013	132,890	1,119,537,646	190	0.8
1997	5,955,267	139,459	1,116,717,640	188	0.8
1998	5,998,880	149,318	1,240,092,643	207	0.8
1999	6,044,969	154,405	1,228,372,647	203	0.8
2000	6,080,485	164,543	1,569,341,152	258	1.0
2001	6,126,743	168,622	1,624,466,887	265	1.0
2002	6,159,068	173,932	1,713,027,121	278	1.0

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2002 State Debt Medians, the median debt per capita for all states was about \$573

(3) According to Moody's 2002 State Debt Medians, the median percentage for all states was about 2.3%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Debt Issued in Fiscal Year 2004

State Office Building Commission. In September 2003, the Building Commission issued \$107.8 million of Capitol Complex Revenue Bonds to refund all the Series 1993A, 1993B and 1993C Capitol Complex Revenue Bonds, issued to finance the Government Center North and South buildings and parking Facilities. See Tables V-1 and V-2.

Transportation Finance Authority. In September 2003, the TFA issued \$433.2 million of Highway Revenue Bonds to (i) finance additional highway construction projects and (ii) refund approximately \$150.0 million of bond anticipation notes, issued in June 2003, to provide interim funding for such projects.

Authorized but Unissued Debt

State Office Building Commission. The General Assembly has authorized the Building Commission to issue bonds to finance State facilities, including:

- New regional mental health facility in Evansville (Evansville State Hospital)
- Four regional mental health facilities
- State-wide public safety communications network
- Laboratories for the State Police, Department of Health and Department of Toxicology

The Evansville State Hospital is nearly complete.

The regional mental health facilities in Logansport and Madison are under construction. The Building Commission is working with the Family and Social Services Administration on planning for the other two facilities.

Construction costs of the Logansport and Madison facilities are estimated to be \$36.0 million and \$55.0 million, respectively. The new Logansport and Madison facilities are expected to be complete in the first quarter of 2005 and the fourth quarter of 2004, respectively.

The first phase of the public safety communications network (Project Hoosier SAFE-T) is under construction and is expected to be complete by March 2004. The estimated construction cost is \$30.0 million. The Building Commission is working with the Integrated Public Safety Commission on planning and design of the remaining phases.

The Building Commission is designing the laboratories and anticipates construction will begin in May 2004 with completion two years later. The estimated construction cost is \$60.0 million.

The Building Commission is providing short-term, or construction, financing for the mental health facilities and laboratories through the Building Commission's "Hoosier Notes" commercial paper program. The Building Commission is authorized to issue not to exceed \$150.0 million of Hoosier Notes for projects authorized by the General Assembly. It is anticipated that the Building Commission will issue Hoosier Notes for the public safety communications network.

Transportation Finance Authority. The TFA anticipates issuing an additional \$300.0 million of Highway Revenue Bonds or bond anticipation notes to finance highway construction projects in Fiscal Years 2004 and 2005.

Refundings. The State's Office of Public Finance monitors refinancing opportunities for the Building Commission, the TFA, the Recreation Commission and the Development Finance Authority. As a result, one or more of these issuers may issue refunding bonds from time to time to restructure outstanding indebtedness or achieve debt service savings.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes outstanding as of June 30, 2003 for each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations for Fiscal Years 2004 and 2005 are shown below.

Table V-4
Schedule of Fee Replacement Debt

	Estimated Amount of Debt Outstanding June 30, 2003	Fiscal Year 2004 Fee Replacement Appropriations	Fiscal Year 2005 Fee Replacement Appropriations
Ball State University	\$ 74,140,000	\$ 8,093,255	\$ 8,094,555
Indiana University ⁽¹⁾	434,815,778	53,554,738	53,904,523
Indiana State University	57,300,000	6,549,325	6,549,470
Ivy Tech State College	117,600,000	8,997,210	10,262,578
Purdue University ⁽²⁾	191,376,552	28,358,962	22,899,464
University of Southern Indiana	52,861,247	5,862,166	5,859,415
Vincennes University	<u>20,903,603</u>	<u>2,666,455</u>	<u>2,669,550</u>
Total	\$ <u>948,997,180</u>	\$ <u>114,082,111</u>	\$ <u>110,239,555</u>

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Contingent Obligations

Certain State-authorized entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. For a list of the indebtedness of the TFA for Toll Road Financing, see “Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“INDOT”) entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. INDOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by INDOT are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, INDOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, INDOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or INDOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see “Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority—Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to local governments and other qualified entities as defined in Indiana

Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds or notes issued by the Bond Bank with a debt service reserve under Indiana Code 5-1.5-5 are considered “moral obligation bonds”; however, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds and issued by the Bond Bank, and a debt service reserve fund replacement appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1.0 billion plus (a) not to exceed \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) not to exceed \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

For a list of Bond Bank bonds that are eligible for debt service reserve fund replacement appropriations, *see* “Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-5, the Development Finance Authority’s revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issue. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agreed that the Development Finance Authority would seek appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the Development Finance Authority is paying the Qualitech Bonds and the Heartland Bonds, using appropriations made by the General Assembly.

The Steel Dynamics Bonds have been redeemed and replaced with a loan from one or more commercial banks. The debt service reserve fund established for the Steel Dynamics Bonds remains in place, together with the Development Finance Authority's agreement to seek State appropriations to fund debt service under certain circumstances.

The Steel Dynamics Bonds financed a portion of the State's incentives for a substantial economic development project in DeKalb County. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State's incentives for a substantial economic development project in Hendricks County. Steel Dynamics purchased that project, and the Development Finance Authority anticipates that Steel Dynamics will begin additional production there upon completion of capital improvements and required permitting. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State's incentives for a substantial economic development project in Vigo County (Terre Haute). A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-5.

Debt Statement—Contingent Obligations

Table V-5 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2003. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See “Schedule of Long Term Debt—Contingent Obligations.”

Table V-5
Schedule of Long Term Debt
Contingent Obligations

Issuer/Series	Original Par Amount	Ending Balance 6/30/02	(Redeemed)/ Issued	Ending Balance 6/30/03
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	44,340,000	-	44,340,000
Series 1993	76,075,000	39,175,000	(9,035,000)	30,140,000
Series 1996	134,795,000	132,090,000	(2,735,000)	129,355,000
ITFA TOTAL	\$ 652,585,000	\$ 241,805,000	\$ (11,770,000)	\$ 230,035,000
Bond Bank				
Special Program Pool				
Series 1993A	\$ 7,975,000	\$ 6,165,000	\$ (285,000)	\$ 5,880,000
Series 1993B	14,915,000	12,265,000	(865,000)	11,400,000
Series 1994B	8,475,000	6,420,000	(490,000)	5,930,000
Series 1995A	4,540,000	3,690,000	(180,000)	3,510,000
Series 1995A	13,280,000	11,385,000	(375,000)	11,010,000
Series 1997A	6,295,000	5,745,000	(175,000)	5,570,000
Series 1997B	22,855,000	20,385,000	(1,625,000)	18,760,000
Series 1997C	5,010,000	5,010,000	-	5,010,000
Series 1998A	6,485,000	6,085,000	(170,000)	5,915,000
Series 2000A	31,495,000	31,495,000	(695,000)	30,800,000
Series 2000A (Refunding)	32,860,000	15,185,000	(3,440,000)	11,745,000
Series 2001A (Refunding)	20,840,000	19,525,000	(1,285,000)	18,240,000
Series 2001A	7,055,000	6,945,000	(395,000)	6,550,000
Series 2001B	9,500,000	9,500,000	(460,000)	9,040,000
Series 2002A	42,910,000	42,910,000	(250,000)	42,660,000
Series 2002C	3,940,000	3,940,000	(95,000)	3,845,000
Series 2002D	60,000,000	-	58,910,000	58,910,000
Series 2002E	10,155,000	-	10,155,000	10,155,000
Series 2003A	8,885,000	-	8,885,000	8,885,000
Series 2003B	40,385,000	-	40,385,000	40,385,000
Series 2003C	10,425,000	-	10,425,000	10,425,000
IBB TOTAL	\$ 368,280,000	\$ 206,650,000	\$ 117,975,000	\$ 324,625,000
Development Finance Authority				
Qualitech Steel	\$ 33,100,000	\$ 27,500,000	\$ (1,200,000)	\$ 26,300,000
Steel Dynamics	21,400,000	16,500,000	(1,200,000)	15,300,000
Heartland Steel	13,800,000	11,900,000	(500,000)	11,400,000
IDFA TOTAL	\$ 68,300,000	\$ 55,900,000	\$ (2,900,000)	\$ 53,000,000
TOTAL ALL BONDS	\$ 1,089,165,000	\$ 504,355,000	\$ 103,305,000	\$ 607,660,000

Source: State Budget Agency (as of June 30, 2003)

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantees for industrial development or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 29-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority ⁽¹⁾	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority ⁽²⁾	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to finance and construct, a broad variety of projects, including public ports, throughout Indiana
Indiana Secondary Market for Secondary Loans, Inc. ⁽³⁾	I.C. 20-12-21.2 Authorized 1980	Provide funds for secondary market for higher education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in downtown Indianapolis

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local

government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2002, there were 205,898 active and retired members participating in PERF from State and local government with assets totaling \$7,953,029,893.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and now pays the employee contributions for State employees to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table VI-1
Public Employees' Retirement Fund
(State-Related Portion Only)

As of July 1,	1998	1999	2000	2001*	2002
Funded Status					
Actuarial Value of Assets	\$1,626,450,185	\$ 1,828,584,443	\$ 1,960,018,018	\$ 2,063,626,964	\$ 2,061,789,940
Actuarial Accrued Liability	1,491,985,623	1,583,485,563	1,701,091,436	1,896,505,744	2,123,779,031
Unfunded/(Overfunded) AAS	(134,464,562)	(245,098,880)	(258,926,582)	(167,121,220)	61,989,091
Funded Ratio	109.0%	115.5%	115.2%	108.8%	97.1%
Contribution History					
Annual Required Contribution	\$ 81,545,985	\$ 67,481,016	\$ 61,761,627	\$ 66,559,482	\$ 72,332,921
Actual Employer Contribution	80,145,933	77,821,378	84,353,750	76,218,663	77,420,077
Contribution Rate**	5.7%	5.0%	5.0%	5.2%	5.6%

* Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2002.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Defined Benefit Plan, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table VI-2 highlights the actuarial valuation findings for these plans as of July 1, 2002.

Table VI-2
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2001)

	Judge's Retirement System	Legislators' Defined Benefit Plan	Excise Police & Conservation Officers' Retirement Plan	Prosecuting Attorney's Retirement Fund
<u>Funded Status</u>				
Actuarial Value of Assets	\$ 121,155,082	\$ 4,446,211	\$ 37,359,789	\$ 11,957,364
Actuarial Accrued Liability	188,433,985	5,503,049	55,884,194	22,385,803
Unfunded/(Overfunded) AAL	67,278,903	1,056,838	18,524,405	10,428,439
Funded Ratio	64.3%	80.8%	66.9%	53.4%
<u>Contribution History*</u>				
Annual Required Contribution	\$ 10,320,300	\$ 205,540	\$ 2,047,201	\$ 906,543
Actual Employer Contribution	12,542,618	186,638	1,903,945	435,796

* Contribution History is for Plan Year 7/1/01 – 6/30/02

Source: Actuarial Valuation Reports, July 1, 2002.

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2002, \$168.8 million was expended from the pension relief fund, and on June 30, 2002, the pension relief fund balance was \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs TRF, and TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2002, TRF had 115,456 total members with assets totaling \$5,722,753,180.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employer was authorized to elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

1. The State capped its pension benefit obligation by (a) shifting the obligation for all teachers hired after July 1, 1995 to local school districts and (b) implementing a level percent of payroll current funding approach (the "New Plan"). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the Plan.

2. The New Plan is intended to be responsible for the total cost of teachers transferring to other school corporations after 1995. The TRF Board began addressing the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to 9.0%, the rate recommended by TRF's actuary.

3. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to reduce future General Fund appropriations for TRF liabilities beginning in Fiscal Year 2006. Payments from the Pension Stabilization Fund were intended to equal the difference between (1) the then current year liability and (2) 106% of the prior year's payment from the General Fund for the liability. As of June 30, 2002, the Pension Stabilization Fund balance was \$1.787 billion. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenues, as well as investment income.

To balance the budget for Fiscal Years 2004 and 2005, and to fund current teacher pension obligations for Fiscal Years 2004 and 2005, the General Assembly authorized transfer of a total of \$380.0 million from the Pension Stabilization Fund to the General Fund. In addition, the General Assembly redirected Hoosier Lottery profits that otherwise would have been deposited in the Pension Stabilization Fund. Unless remedied, such actions will reduce the effectiveness of the Pension Stabilization Fund and result in the need for greater appropriations to fund future TRF obligations.

Table VI-3
Indiana State Teachers' Retirement Fund

As of June 30,	1998	1999	2000	2001	2002
Funded Status of Closed Plan					
Actuarial Value of Assets	\$ 4,130,388,693	\$ 4,730,666,420	\$ 5,209,889,286	\$ 5,363,497,813	\$ 5,555,352,257
Actuarial Accrued Liability	11,481,766,668	12,172,501,450	12,409,275,218	12,695,787,691	13,497,778,031
Unfunded/(Overfunded) AAL	7,351,377,975	7,441,835,030	7,199,382,932	7,332,289,878	7,942,425,774
Funded Ratio	36.0%	38.9%	42.0%	42.2%	41.2%
Funded Status of New Plan*					
Actuarial Value of Assets	\$ 135,923,370	\$ 240,053,914	\$ 368,157,499	\$ 447,261,751	\$ 621,222,272
Actuarial Accrued Liability	298,407,427	498,422,993	705,790,225	838,038,282	1,166,883,205
Unfunded AAL	162,484,057	258,369,079	337,632,726	380,776,531	545,660,933
Funded Ratio	45.5%	48.2%	52.2%	54.0%	53.2%

* Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.

Source: Indiana State Teachers' Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2002.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See "FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs, State."

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is within a day's drive of nearly two-thirds of the United States' population. Indiana benefits from proximity to major markets and population centers—both national and international. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana's major cities has been consistently below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

During the past decade, Indiana's economy grew in size and diversity. With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel. From 1992 to 2002, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 45%, followed by a 27% gain in Education and Health Services and a 23% increase in Leisure and Hospitality. The Manufacturing sector is 20.4% of total employment in Indiana, a decrease from 23.4% in 1992, and is the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana's population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population, including Selected Indiana MSAs

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>% Change 1980-2000</u>
Indiana	5,490,210	5,544,159	6,080,485	10.8
Indianapolis MSA	1,166,575	1,249,822	1,607,486	37.8
Fort Wayne MSA	354,156	363,811	502,141	41.8
Evansville- Henderson MSA	235,403	235,946	251,366	6.8
Gary Primary MSA	642,733	604,526	631,362	-1.8
South Bend MSA	241,617	247,052	265,559	9.9
United States	226,542,199	248,709,873	281,421,906	24.2

Source: U.S. Census Bureau

**Table VII-2
Demographic Profile**

Age (Years)	<u>Indiana</u>		<u>United States</u>	
	<u>1990</u>	<u>2000</u>	<u>1990</u>	<u>2000</u>
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 20.4% of total employment, it was the slowest growing sector from 1992 to 2002. The fastest growing sectors were Professional & Business Services, which grew by 45.1% from 1992 to 2002, followed by Education & Health Services (26.8% growth) and Leisure & Hospitality (22.6% growth). Indiana lost 19,600 jobs between December 2001 and December 2002, representing a 0.7% decline. Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

**Table VII-3
Year-Ending Non-Farm Employment
(Seasonally Adjusted)**

<u>Year</u>	<u>Total Employment</u>		<u>% Change</u>		<u>Net New Jobs</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>
1992	2,580,400	109,266,000	2.5%	1.1%	64,000
1993	2,669,700	112,034,000	3.5	2.5	89,300
1994	2,757,200	115,918,000	3.3	3.5	87,500
1995	2,807,100	118,118,000	1.8	1.9	49,900
1996	2,836,700	120,916,000	1.1	2.4	29,600
1997	2,881,100	124,270,000	1.6	2.8	44,400
1998	2,952,900	127,297,000	2.5	2.4	71,800
1999	3,005,400	130,406,000	1.8	2.4	52,500
2000	2,975,700	132,319,000	-1.0	1.5	-29,700
2001	2,900,000	130,890,000	-2.5	-1.1	-75,700
2002	2,880,400	130,670,000	-0.7	-0.2	-19,600
Average Annual Growth Rate (1992-2002):			1.1	1.8	
Total Growth (1992-2002):			11.6	19.6	300,000

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-Ending Non-Farm Employment by Sector
(Seasonally Adjusted in Thousands)

<u>Sector</u>	<u>1992</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>	<u>Growth 1992-2002</u>
Mining	7.2	0.3%	7.1	0.2%	-1.4%
Construction	116.7	4.5	137.5	4.8	17.8
Manufacturing	604.1	23.4	586.5	20.4	-2.9
Trade, Transportation & Utilities	527.9	20.5	579.0	20.1	9.7
Information	42.2	1.6	42.0	1.5	-0.5
Financial Activities	130.5	5.1	140.5	4.9	7.7
Professional & Business Services	169.0	6.5	245.2	8.5	45.1
Education & Health Services	277.6	10.8	352.0	12.2	26.8
Leisure & Hospitality	214.9	8.3	263.4	9.1	22.6
Other Services	100.8	3.9	109.1	3.8	8.2
Government	<u>389.5</u>	<u>15.1</u>	<u>418.1</u>	<u>14.5</u>	<u>7.3</u>
Total	<u>2580.4</u>	<u>100.0</u>	<u>2880.4</u>	<u>100.0</u>	<u>11.6</u>

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as % of U.S.</u>
1992	6.6%	7.5%	88.0%
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.7	5.6	83.9
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0
2001	4.4	4.7	93.6
2002	5.1	5.8	87.9

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2002, Indiana's per capita personal income reached \$28,240, increasing 2.6% from 2001. During the past ten years, Indiana's personal income grew at an average annual rate of 3.94%. From 1991 to 2001, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.69% for Indiana as compared to 0.97% for the United States. In 2001, median income was \$41,192 or 96% of the U.S. average, up from 90% in 1991.

Table VII-6
Growth in Per Capita Personal Income

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1992	19,181	20,960	6.5 %	4.7 %
1993	19,982	21,539	4.2	2.8
1994	20,978	22,340	5.0	3.7
1995	21,623	23,255	3.1	4.1
1996	22,501	24,270	4.1	4.4
1997	23,418	25,412	4.1	4.7
1998	24,891	26,893	6.3	5.8
1999	25,543	27,880	2.6	3.7
2000	27,010	29,760	5.7	6.7
2001	27,522	30,413	1.9	2.2
2002	28,240	30,941	2.6	1.7
Average Annual Growth Rate (1992-2002):			3.94%	3.97%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(Two-Year Average)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1991	\$ 34,849	\$ 38,754	-1.9 %	-2.1 %
1992	34,805	38,032	-0.1	-1.9
1993	35,417	37,784	1.8	-0.7
1994	34,236	37,904	-3.3	0.3
1995	35,711	38,712	4.3	2.1
1995	38,995	37,857	9.2	2.3
1997	41,126	40,284	5.5	1.8
1998	42,931	41,436	4.4	2.9
1999	43,283	42,764	0.8	3.2
2000	41,937	43,211	-3.1	1.0
2001	41,192	42,695	-1.8	-1.2
Average Annual Growth Rate (1991-2001):			1.69%	0.97%

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>
1991	15.7%	14.2%
1992	11.8%	14.8%
1993	12.2%	15.1%
1994	13.7%	14.5%
1995	9.6%	13.8%
1996	7.5%	13.7%
1997	8.8%	13.3%
1998	9.4%	12.7%
1999	6.7%	11.8%
2000	8.7%	11.3%
2001	8.5%	11.7%

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 1990, Indiana's Gross State Product has grown at average annual rate of 5.7%.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP)
(Millions of Dollars, Current Dollars)

	<u>1980</u>	<u>1990</u>	<u>2000</u>	Average Annual Growth Rate <u>1990-2000</u>	<u>% of Total</u>
Indiana	58,379	110,788	192,195	5.7%	100.0%
Agriculture	1,907	2,273	2,225	-0.2	1.2
Mining	493	640	674	0.5	0.4
Construction	2,685	5,074	9,836	6.8	5.1
Manufacturing	19,510	33,665	58,906	5.8	30.6
Transportation & Utilities	5,184	10,111	14,436	3.6	7.5
Wholesale Trade	3,586	6,452	11,448	5.9	6.0
Retail Trade	5,610	10,238	17,365	5.4	9.0
F.I.R.E.	7,219	13,691	25,422	6.4	13.2
Services	6,318	16,416	32,755	7.2	17.0
Government	5,868	12,228	19,128	4.6	10.0
United States	2,731,618	5,706,658	9,941,522	5.7	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2002, Indiana businesses exported \$14,923.0 million worth of goods to other countries, an increase of 3.9% from 2001. Since 1996, Indiana's exports have grown at an average annual rate of 5.2% as compared to 1.8% for the United States as a whole.

Table VII-10
Exports
(Millions of Dollars)

Year	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1996	10,983.6	622,827.1	- %	- %	1.8 %
1997	12,028.5	687,598.0	9.5	10.4	1.7
1998	12,318.1	680,474.2	2.4	(1.0)	1.8
1999	12,910.3	692,820.6	4.8	1.8	1.9
2000	15,385.8	780,418.6	19.2	12.6	2.2
2001	14,365.4	731,025.1	(6.6)	(6.3)	2.1
2002	14,923.0	693,257.3	3.9	(5.2)	2.2
Average Annual Growth Rate (1996-2002):			5.2	1.8	
Total Growth (1996-2002):			35.9	11.3	

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(Millions of Dollars)

<u>Export Industries</u>		<u>Export Destinations</u>	
<u>Industry</u>	<u>2002 Exports</u>	<u>Country</u>	<u>2002 Exports</u>
Vehicles, excluding Railway	\$4,141.1	Canada	\$6,819.3
Machinery	3,215.4	Mexico	1,942.5
Electrical Machinery	1,356.3	United Kingdom	1,006.7
Optic/Medical Instruments	903.0	Japan	714.1
Organic Chemical	892.3	France	637.6
Plastic	627.2	Germany	525.1
Miscellaneous Chemical	562.6	Netherlands	295.3
Pharmaceutical	546.6	Singapore	252.7
Iron and Steel	209.9	Korea	244.7
Aluminum	207.7	Australia	227.8
Other	2,265.9	Other	2,257.2

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

The following litigation liability survey is a summary of significant litigation and claims currently pending against the State of Indiana (the "State") involving amounts exceeding \$5.0 million individually or in the aggregate. With respect to tort claims only, the State's liability is limited to \$300,000 for injury or death of one person in any one occurrence, and \$5.0 million for injury or death of all persons in any one occurrence.

In July 1993, plaintiffs filed a lawsuit in Marion County Superior Court alleging that the State failed to pay certain similarly classed State employees at an equal rate of pay. The Court certified plaintiffs' class. Plaintiffs seek damages in an unspecified amount. If the plaintiffs are ultimately successful, the loss will be in excess of \$5.0 million.

In a lawsuit filed against the State in January 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State not to assist applicants that have a medical condition that will improve with treatment when they are unable to pay for the treatment themselves. The Indiana Supreme Court denied transfer of the case, thus affirming the Superior Court's decision. Thus far, the State has paid approximately \$17.0 million in claims submitted by providers and recipients. Claimants may submit claims until mid-September 2003.

In 1993, certain transportation providers filed actions against the State, challenging the Medicaid reimbursement rules for transportation services. The State prevailed in both the state and federal trial courts, but plaintiffs, appealed. The State won the appeals, but the federal appeal resulted in a remand to the state court. If the rules are ultimately enjoined, the State will forfeit savings in excess of \$5.0 million.

In September 2000, various Lake County officials filed a lawsuit in the Indiana Tax Court alleging that residents of the county pay a disproportionate share of the Hospital Care for the Indigent ("HCI") tax and that the tax therefore violates various constitutional provisions. The Tax Court held that the HCI assessment was an unconstitutional tax. The Indiana Supreme Court reversed the Tax Court. A request was made for a rehearing with both the Indiana Supreme Court and the Indiana Tax Court for consideration of additional federal constitutional claims. Additionally, a group of taxpayers from Lake County filed a separate action in the United States District Court for the Northern District of Indiana challenging the HCI tax. HCI tax receipts total approximately \$128.0 million annually.

In July 2000, a gaming corporation operating a riverboat casino challenged the Indiana Department of Revenue's interpretation of the Riverboat Gaming Tax. The potential financial impact of this case is between

\$5.0 million and \$10.0 million, with additional impact because of the precedent it would have on other riverboat casino operations.

In December 2000, property owners filed an action against the State claiming that denial of a permit for certain land use was unconstitutional. Plaintiffs are seeking in excess of \$30.0 million in damages plus costs and attorney fees.

In May 2000, property owners along the Fawn River filed an action against the State for violations of the Clean Water Act, unconstitutional takings and federal civil rights violations. Plaintiffs are seeking in excess of \$38.0 million in damages, costs and attorneys' fees. The Federal District Court granted summary judgment in favor of the State. The matter is currently on appeal before the United States Court of Appeals for the Seventh Circuit.

In February 2001, plaintiffs brought a class action seeking injunctive relief to force the State to provide Medicaid-eligible children under the age of 21 who are eligible for the early and periodic screening, diagnostic and treatment program with residential mental health placement. While plaintiffs are not seeking monetary damages, a decision against the State would force the State to pay for residential placement for the class. The size of the class is unknown, but could include thousands of children and the ultimate cost to the State could exceed \$5.0 million. The Federal District Court granted summary judgment to plaintiffs on the Medicaid issue. The case is on appeal to the Seventh Circuit.

In 2001 and 2002, four riverboat casinos filed cases claiming that purchases of riverboats are not properly subject to Indiana sales and use tax. Collectively, the exposure for these cases is between \$7.0 million and \$8.0 million. The Indiana Tax Court issued an opinion on two of these cases—both favorable to the casinos' positions. One case is in the settlement process. Another case is in partial settlement. One case is in the process of being appealed.

In April 2002, six federal retirees filed a class action claiming that Indiana's method of taxing federal employees' retirement benefits results in a greater collection of tax than is collected from other retirees who collect Social Security, allegedly violating federal statutes and the United States Constitution. The total exposure exceeds \$5.0 million.

In July 2002, a corporation filed a breach of contract action against the State alleging that the Indiana Department of Environmental Management failed to abide by the terms of an agreed order relating to cleanup costs. Plaintiff is seeking \$5.0 million in damages.

In August 2002, an accounting firm hired to conduct reassessment of real property in Lake County filed a breach of contract action. The firm seeks \$12.0 million. Plaintiff asserts that the State approved invoices, but then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices submitted for payment.

In October 2003, the Indiana Supreme Court heard oral arguments in *D & M Healthcare, et al. v. Family and Social Services Administration, et al.*, a case in which the State sought transfer of the appellate court's decision over a challenge involving the timing of the Governor in returning vetoed bills to the General Assembly. If the Court finds against the State, the case could (i) affect at least 23 vetoed bills from previous years and (ii) cost the State an unknown, but potentially material, amount of money. At least one of the vetoed bills affects the Medicaid program, and the State estimates that the cost to the State of that bill would be approximately \$132.2 million in Fiscal Year 2004 alone.

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Appendix B

Summary of Certain Provisions of the Use and Occupancy Agreements

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS

The following is a brief summary of certain provisions of the Use and Occupancy Agreements (for purposes only of this APPENDIX B, the "Use and Occupancy Agreement"). As described in this Official Statement, each series of 2003 Bonds are being issued pursuant to the Indenture, but is payable primarily from rental payments received by the Commission from the Department of Administration pursuant to a separate Use and Occupancy Agreement for each separate Facility financed or refinanced under the Indenture. The provisions of each Use and Occupancy Agreement are substantially identical. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the respective Use and Occupancy Agreements. In addition, the terms of the Use and Occupancy Agreements may be amended from time to time in any respect not inconsistent with the requirements of the Indenture. Certain capitalized terms used under this caption are defined in APPENDIX F, "DEFINITIONS." See also APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE."

Term, Renewal

Under each Use and Occupancy Agreement, the Commission has covenanted to construct and equip the Facility, and the Department of Administration has made certain undertakings (other than any obligation to make rental payments thereunder) as of the execution date. The Department of Administration's obligation to make rental payments for the Facility (or portion thereof) and the term of the Use and Occupancy Agreement will commence from and after the date of the Department of Administration's acceptance of a completion certificate for the Facility (or portion thereof), in accordance with the Use and Occupancy Agreement, and will extend through 12:01 a.m. on July 1, of the next succeeding odd numbered year. The Department of Administration has the right to renew the Use and Occupancy Agreement for successive two-year periods thereafter, and the term of the Use and Occupancy Agreement will be deemed to have been renewed for each such two-year period unless the Department of Administration delivers a termination notice during a specified period prior to the end of any two-year term. In the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of the Facility when due, the Facility must be vacated and the Commission may take whatever action at law or in equity that may appear necessary or desirable to enforce its rights under the Use and Occupancy Agreement.

Rentals

The Department of Administration is required by each Use and Occupancy Agreement to pay monthly rentals for the Facility (or portion thereof) to the Commission on or before the tenth day of each month succeeding those months during which the Facility (or portion thereof) is available for use and occupancy. Under the Act, required rental payments may not be unjust and unreasonable considering the value of the services and facilities thereby afforded. In determining "just and reasonable" amounts to be paid for the use and occupancy of the Facility, the Act specifically requires the Commission to impose and collect amounts that, in the aggregate, will be sufficient to: (a) pay the expenses of operation, maintenance and repair of the

Facility, to the extent that such expenses are not otherwise provided; and (b) leave a balance of revenues from the Facility to pay the principal and interest (including any reserve or sinking funds) on bonds or loans as they become due and retire such obligations at or before maturity. Rental payments under each Use and Occupancy Agreement are required to be sufficient: (1) to provide for the payment of all expenses to be paid by the Commission in administering the Facility (or portion thereof) and in complying with the covenants of the Indenture, and all of the costs of insurance to be incurred as an expense of the Commission for the Facility (or portion thereof); (2) to provide for the payment of Debt Service on all Bonds allocable to the Facility (or portion thereof); (3) to provide for required deposits to any debt service reserve established under a Supplemental Indenture; and (4) to the extent authorized or permitted by law, to provide for costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for the Facility (or portion thereof). In the event that the Facility (or portion thereof) is damaged or destroyed so as to be rendered unfit for use and occupancy, rental payments will be appropriately abated and, so long as the Commission has complied with its obligation under each Use and Occupancy Agreement to obtain and maintain insurance on the Facility and the rental value thereof, the resulting rental deficiency will be satisfied, for at least twelve months, out of the proceeds from such insurance paid to and received by the Trustee for the period during which the Facility (or portion thereof) is unfit for use and occupancy. Under the Use and Occupancy Agreement, the Department of Administration will be required to pay for all expenses of operation, maintenance and repair of the Facility, other than expenses of the Commission in administering and maintaining insurance on the Facility. However, to the extent that funds are available in the Replacement Reserve Fund for the respective Facility, the Commission is required to pay the costs of all major, non-recurring maintenance, repairs, improvements, equipment and replacements for the Facility to maintain the Facility in good repair, working order and condition. Nothing in any Use and Occupancy Agreement requires the Commission to charge, or the Department of Administration to pay, rental payments in an amount which exceeds the amounts properly allocable to the Facility (or a phase thereof) as a just and reasonable lease rental considering the value of the services and the Facility (or portion thereof) thereby afforded.

Insurance

Each Use and Occupancy Agreement requires the Commission to keep or cause the Facility to be insured against loss or damage by fire and other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of all Bonds allocable to the Facility then outstanding under the Indenture or (b) 100% of the full replacement cost of the Facility (subject to reasonable loss-deductible provisions). The Commission is also required to maintain in effect business interruption insurance against loss of rental income for a period of at least twelve months due to the damage or destruction and interruption of the use of all or a part of the Facility for periods insured against under a standard extended coverage endorsement. In addition, the Commission is required to use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to person and property as are customary to be insured or reserved against for properties similar to the Facility.

Purchase, Assignment

Under each Use and Occupancy Agreement, the Department of Administration has an option to purchase the Facility at a price equal to the amount required to provide for the payment or redemption of all outstanding Bonds allocable to the Facility, including all premiums payable upon the redemption thereof and accrued and unpaid interest thereon, all in accordance with the Indenture, and to pay all expenses of the Commission attributable to the Facility.

The Department of Administration may not assign any interest in or any right under a Use and Occupancy Agreement. Further, the Department of Administration may, pursuant to a form of sublease agreement previously approved in writing by the Commission, sublet all or part of the Facility to any other State agency. Without (a) the prior written consent of the Commission and (b) an opinion of nationally recognized bond counsel to the effect that a sublease of all or a portion of the Facility to, or use of all or a portion of the Facility by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds, the Department of Administration will not be permitted to sublet all or any portion of the Facility to any such person, except for a sublease to any other State agency. The Commission may enter into an agreement with the Department of Administration or any other State agency to manage the Facility, but may not enter into a management agreement with any other person (natural or otherwise) unless, in the opinion of nationally recognized bond counsel, such agreement will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

Tax Covenants, Appropriations

Under a Use and Occupancy Agreement, the Department of Administration covenants not to take any action or fail to take any action with respect to the use of the Facility that would result in loss of the exclusion from gross income pursuant to the Code of interest paid on any Tax-Exempt Bonds. The Department of Administration also covenants under each Use and Occupancy Agreement to use its best efforts to obtain appropriations from the General Assembly to meet its rental payment obligations and its operation, maintenance and repair obligations.

Remedies

Under each Use and Occupancy Agreement, if the Department of Administration (a) fails to pay any rent when due, or (b) fails to observe any covenant, for a period of 30 days following written notice of such violation, the Commission may terminate such Use and Occupancy Agreement and/or take whatever action at law or in equity may appear necessary or desirable to enforce its rights. However, in the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of the Facility (or portion thereof), the Facility (or portion thereof) must be vacated. Notwithstanding anything in the preceding sentence to the contrary, the Department of Administration will be obligated to make any rental payment due for any period (i) during which the Facility (or portion thereof) is available for use and occupancy and (ii) for which funds have been appropriated by the General Assembly and are available to pay when due any sum agreed to be paid for use and occupancy of the Facility. If the terms and conditions of a Use and Occupancy Agreement and the amounts to be paid

thereunder for use and occupancy of the Facility are shown to be unjust and unreasonable in light of the factors set forth in the Act, (a) the Commission and the Department of Administration will, if authorized or permitted by law, be required to reduce such amounts so as not to be unjust and unreasonable, or (b), if such reduction is not authorized or permitted by law, the Department of Administration will not be obligated to continue to pay such amounts and will instead be required to vacate the Facility.

The Use and Occupancy Agreements contain no "cross-default" provisions. For example, an event of default under the Use and Occupancy Agreement for any individual Facility will not constitute an event of default under any other Use and Occupancy Agreement relating to any of the other Facilities or under any other use and occupancy agreement relating to any other facility financed by the Commission, and *vice versa*.

Appendix C

Summary of Certain Provisions of Indenture

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF INDENTURE

The following is a summary of certain provisions contained in the Indenture. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Indenture. Certain capitalized terms used under this caption are defined in APPENDIX F, "DEFINITIONS."

Creation of Funds, Accounts

The Indenture establishes the following Funds, Accounts and Subaccounts to be held by the Trustee with respect to each Refunded Facility:

1. the Construction Fund for each of the Refunded Facilities comprised of:
 - (a) the Interest Account,
 - (b) the Credit Repayment Account,
 - (c) the Project Account,
 - (d) the Expense Account, including an Expense Account for the 2003 Bonds issued with respect to such Refunded Facility, and
 - (e) the Clearing Account;
2. the Revenue Fund for each of the Refunded Facilities;
3. the Operation and Maintenance Fund for each of the Refunded Facilities;
4. the Debt Service Fund for each of the Refunded Facilities, including an Interest Account and a Principal Account for the 2003 Bonds issued with respect to such Refunded Facility;
5. the Replacement Reserve Fund for each of the Refunded Facilities;
6. the Rebate Fund for each of the Refunded Facilities; and
7. Interest Stabilization Fund for each series of 2003 Bonds.

Similar Funds and Accounts are established under the Indenture for each Indenture Facility. In addition, a General Fund is created for the benefit of all series of Bonds without regard to any particular Indenture Facility.

Deposit of Net Bond Proceeds, Revenues, Other Receipts

The Trustee will deposit the net proceeds from the sale of the 2003 Bonds to the following Funds, Accounts and Subaccounts as directed by the Commission on the date of issuance and sale of the 2003 Bonds:

(a) to the Construction Fund — Series 2003C Expense Account and Series 2003D Expense Account, for the purpose of paying the costs of issuing the 2003 Bonds and refunding the Refunded 1995A Bonds and Refunded 1995B Bonds, respectively, as more fully described in the Official Statement under the caption "SOURCES AND USES OF FUNDS."

(b) to the respective escrow funds established under the Escrow Agreements for purposes of refunding the Refunded 1995A Bonds and Refunded 1995B Bonds.

The Trustee will deposit all Gross Revenues related to a particular Indenture Facility under the Indenture promptly upon receipt into the related Revenue Fund under the Indenture and will thereupon transfer amounts therein to the following funds in the following order of priority.

(a) To the Operation and Maintenance Fund, such amounts, if any, estimated by the Commission pursuant to such Indenture to be required, after consideration of amounts available in such Fund, to provide for the payment of expenses of operation, maintenance and repair of the respective Facility required to be paid by the Commission, under the respective Use and Occupancy Agreement or otherwise (including expenses of managing and administering such Facility and in complying with the covenants of the Indenture), through the end of the month beginning on the first day of the month following the month in which the transfer was made;

(b) To the Debt Service Fund, such amount, if any, required to bring the balance in such Fund to a level equal to the Accrued Debt Service that will accrue through the end of the first day of the month following the month in which the transfer was made;

(c) To the Rebate Fund, the amount, if any, required to be deposited therein in accordance with the related Rebate Memorandum;

(d) To the debt service reserve fund, if any is established for a series of Bonds, the amount, if any, required under the related Supplemental Indenture to bring the balance in such reserve to a level sufficient to satisfy the debt service reserve requirement under such Supplemental Indenture (*no debt service reserve is established for or available to the 2003 Bonds*);

(e) To the Replacement Reserve Fund, an amount equal to 1/72 of the amount, after considering the amount on deposit in such Fund on the first day of the then-current Fiscal Year, as the Commission has annually estimated to be required under the Indenture to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for each respective Facility to be paid

through the end of the sixth Fiscal Year following the end of the then-current Fiscal Year; and

(f) To the General Fund, such amounts, if any, remaining in the Revenue Fund after making all of the required transfers thereunder.

Construction Fund

In accordance with the Indenture, amounts held in the various accounts of the Construction Fund for each Facility will be disbursed by the Trustee. From the related Project Account and Expense Account, the Trustee will pay the amounts required to finance the Acquisition Costs of the related Facility, including costs relating to the issuance of the Bonds. To request any payment for any of such purposes, the Commission must file a requisition with the Trustee, signed by an authorized officer of the Commission and stating the name and address of the person, firm, corporation or other entity to whom payment is due (which may be the Commission), the amount to be paid and the particular item of the cost to be paid. The requisition must also state that the cost of the obligation in the stated amount is a proper charge against the Project Account or the Expense Account which has not been previously paid.

The Indenture provides for any Facility that, upon the receipt by the Trustee of a certificate of an authorized officer of the Commission, stating (1) the date of substantial completion of Acquisition of a Facility (or a portion thereof) and the amount, if any, required in the opinion of such officer to be paid for any remaining Acquisition Costs of such Facility, and (2) that such Facility (or such portion thereof) has been substantially completed in accordance with the applicable plans and specifications, the balance in the Project Account and the Interest Account in excess of such amount, if any, stated in such certificate will be deposited in the related Clearing Account.

In addition, the Indenture provides for any Facility that, upon the filing of a certificate of a registered engineer, experienced in construction matters, which is based on the then current status of construction of such Facility and on an examination of the contracts providing for the construction of such Facility, setting forth the amount necessary to complete the Acquisition of such Facility, including any reasonable or necessary contingencies, which certificate is approved by an authorized officer of the Commission, the balance of the Project Account for such Facility in excess of the amount, if any, stated in such certificate will be deposited in the related Clearing Account. In the event such a certificate of estimated completion cost is delivered to the Trustee, the Commission will cause such certificate to be recertified within 60 days prior to each six month anniversary of the date the initial certificate was delivered to the Trustee, revising the amount necessary to complete the Facility described therein, if necessary. If the amount recertified in any such certificate of estimated completion cost results in an increase in the amount stated in the initial certificate, then, to the extent available moneys are at any time thereafter held in the Clearing Account, the Commission will direct the Trustee to transfer such available moneys to the Project Account for the Facility described therein to provide for the completion of such Facility.

The Trustee shall transfer amounts from the Clearing Account for a Facility to the Fund or Account specified in the written instructions of an authorized officer of the Commission.

Instructions for a transfer of amounts to a Fund or Account not related to such Facility shall include a certification that no deficiency exists in Funds or Accounts related to such Facility and that such transfer does not effect the validity of the Bonds related to such Facility or the status of interest on any Tax-Exempt Bonds related to such Facility.

From the related Interest Account, the Trustee shall transfer amounts to the Paying Agent on or before the business day preceding each Interest Payment Date the amount required for payments of interest on the Bonds up to and including the projected commencement date (or the respective projected commencement date for Acquisition of portions of such Facility). At the direction of the Commission, the Trustee will transfer from the Interest Account to the related Clearing Account any amounts remaining in such Interest Account after the Commencement Date for such Facility. To the extent funds in the related Interest Account are not sufficient to pay the interest on the related Bonds prior to the Commencement Date of such Facility (or a portion thereof), an authorized officer of the Commission shall direct the Trustee to pay such interest from such Facility's account of the Construction Fund.

The Trustee shall transfer amounts from the related Credit Repayment Account at the direction of the Commission to repay that portion of borrowing under the Credit Note or under any other comparable obligation authorized under the Indenture and allocable to the Acquisition Costs of the related Facility. On or before the payment of funds from the Credit Repayment Account, the Commission will deliver the following documents to the Trustee: (i) written instructions executed by an authorized officer of the Commission stating the payee, the amounts to be paid and the time and manner in which payment is to occur; (ii) if the Credit Note or such other obligation will be paid in full after such payment the Credit Note or such obligation, such Credit Note or obligation will be presented and surrendered to the Trustee; and (iii) if only a portion of the outstanding principal of and accrued interest on the Credit Note or such obligation will be paid by such payment, a written statement stating (a) prior to the receipt of the proposed payment the amount of the outstanding principal of and accrued interest on the Credit Note or such obligation on the proposed payment date and (b) after the receipt of the proposed payment, the amount of the outstanding principal of and accrued interest, if any, on the Credit Note or such obligation on the proposed payment date. At the direction of the Commission, the Trustee will transfer from the Credit Repayment Account to the related Clearing Account any amounts remaining in the Credit Repayment Account after that portion of the borrowing under the Credit Note or such obligation allocable to the Acquisition Costs of a particular Facility has been paid in full.

Operation and Maintenance Fund

Upon delivery to the Trustee of written instructions executed by an authorized officer of the Commission, amounts in the Operation and Maintenance Fund related to a particular Facility will be applied by or on behalf of the Commission to the payment of expenses of operation, maintenance and repair of the Facility to the extent required to be paid by the Commission pursuant to its obligations under the related Use and Occupancy Agreement or otherwise, including expenses of managing and administering the Facility and complying with the Indenture. Any amounts held in the Operation and Maintenance Fund are not available to be pledged or used for any other purpose, including payment of the related Bonds.

Debt Service Fund - Generally

The Indenture requires that out of the Debt Service Fund related to a Facility, the Trustee will disburse to the Paying Agent for the related Bonds (a) on or before the business day preceding each Interest Payment Date for any of the related Bonds, the amount of interest payable on such date; (b) on or before the business day preceding each Principal Installment due date, the amount of the Principal Installment payable on such due date; and (c) on or before any redemption date for the related Bonds, the amount required for the payment of the redemption price, plus accrued and unpaid interest to the redemption date. Such amounts will, in turn, be applied by such Paying Agent on and after the due dates thereof to pay principal and interest on such Bonds. The Trustee will also pay out of the Debt Service Fund the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Fund related to a Facility for a sinking fund installment for the related Bonds (together with amounts accumulated therein with respect to interest on the Bonds for which such sinking fund installment was established) may, and if so directed by the Commission shall be applied by the Trustee, on or prior to the 40th day preceding the due date of such sinking fund installment to (a) the purchase of Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established or (b) the redemption at the applicable sinking fund redemption price of the Bonds, if then redeemable by their terms. Purchases of Bonds must be made by the Trustee, at the direction of the Commission, at prices not exceeding the applicable sinking fund redemption price of the Bonds plus accrued interest. The applicable sinking fund redemption price (or principal amount of maturing Bonds), plus accrued interest, of any Bonds so purchased or redeemed will be deemed to constitute part of the Debt Service Fund until such sinking fund installment date, for the purpose of calculating the amount of such Debt Service Fund. As soon as practicable after the 40th day preceding the due date of any such sinking fund installment, the Trustee will proceed to call for redemption on such due date Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established (except in the case of Bonds maturing on a sinking fund installment date), in such amount as may be necessary to complete the retirement of the unsatisfied balance of such sinking fund installment after making allowances for any Bonds purchased or redeemed (other than pursuant to a mandatory sinking fund redemption applicable to such Bonds) that the Commission has directed the Trustee to apply as a credit against such sinking fund installment as provided in the Indenture. Out of the related Debt Service Fund, the Trustee will pay to the Paying Agent on or before such redemption date (or maturity date), the amount required for the redemption of such Bonds so called for redemption (or for the payment of Bonds then maturing), and such amount will be applied by the Paying Agent to such redemption (or payment).

In the event that the Bonds are to be refunded and in accordance with the directions of the Commission and the requirements of the Indenture, the Trustee will withdraw from the related Debt Service Fund all or any portion of the amounts accumulated therein with regard to debt service on the Bonds to be refunded and will deposit such amounts in such Funds or Accounts as the Commission will direct pursuant to the requirements provided for in the Indenture.

Debt Service Fund – 2003 Bonds

The following summarizes certain of the provisions of the 2003 Supplemental Indentures, which amends and supplements the Debt Service Fund provisions of the Amended and Restated Indenture and describes the operations of the additional Accounts established in the Debt Service Fund in connection with the issuance of the 2003 Bonds.

Receipts, Payments. Upon receipt of each monthly deposit of Accrued Debt Service on the each series of 2003 Bonds into the related Debt Service Fund, the Trustee shall transfer such amount as follows: (A) the portion of the Accrued Debt Service allocable to interest on each series of the 2003 Bonds to the related Interest Account; and (B) the portion of the Accrued Debt Service allocable to Principal Installments on each series of the 2003 Bonds to the related Principal Account. Amounts allocable to each series of the 2003 Bonds in excess of the foregoing, if any, shall be deposited in the respective 2003 Interest Stabilization Fund, as described below.

The Trustee shall pay amounts from the Accounts of each respective Debt Service Fund allocable to each series of 2003 Bonds to the respective Paying Agent for each series of 2003 Bonds, as follows (A) on or before the Business Day preceding each 2003 Interest Payment Date, the amount required for the interest payable on such date from the following respective accounts in the specified order of priority: the Interest Account, the 2003 Interest Stabilization Fund, and the Principal Account; (B) on or before the Business Day preceding each Principal Installment due date, the amount required for the Principal Installment on such due date from the following respective accounts in the specified order of priority: the Principal Account, the Interest Account, and the 2003 Interest Stabilization Fund; and (C) on or before any redemption date for any of the 2003 Bonds, the amount required for the payment of the Redemption Price plus accrued and unpaid interest, if any, to the redemption date, paying the respective interest and principal components in the order specified for the regularly scheduled payments in the previous clauses.

Excess Funds. On the last day of each Fiscal Year, or at such other time as the Commission may direct, the Trustee shall value the amounts on deposit in the Interest Account and Principal Account for each series of 2003 Bonds in accordance with the Amended and Restated Indenture. If upon such valuation, the amounts on deposit in the respective Interest Account or Principal Account exceed the requirements thereof, such excess shall be applied (A) first, to remedy any deficiencies in the other Accounts of each respective Debt Service Fund; (B) second, to pay any amounts owing to any Bond Insurer, (C) third, to pay any amounts owing to any Liquidity Provider with respect to the 2003 Reimbursement Obligations, (D) fourth, to pay any amounts owing to any 2003 Hedge Provider under any 2003 Hedge Agreement, (E) fifth, upon the written direction of an authorized officer of the Commission, for transfer to any other related Fund or Account to cure any deficiencies therein, and (F) sixth, upon the written direction of an authorized officer of the Commission, for transfer to the General Fund.

Excess Interest. Notwithstanding the foregoing, in accordance with the Amended and Restated Indenture, any payment or reimbursement to (i) the Bond Insurer, (ii) a Liquidity Provider with respect to any 2003 Reimbursement Obligations, or (iii) a 2003 Hedge Provider under a 2003 Hedge Agreement, shall be subordinate to the payment of principal of and interest

on all other series of Bonds related to the respective Refunded Facility. The amounts described in subsections (i) through (iii) of the prior sentence may be paid from the respective 2003 Interest Stabilization Fund on a basis subordinate to the payment of principal of and interest on all other series of Bonds related to the respective Refunded Facility.

Estimates, Accounting. For purposes of any estimate or expectation of Debt Service for each series of 2003 Bonds prepared pursuant to the Amended and Restated Indenture, the Commission may use the assumptions with respect to the Debt Service for the 2003 Bonds as described in the definition of "2003 Annual Interest Portion." The fees and expenses related to the Bond Insurance Policy, any Liquidity Facility or any 2003 Hedge Agreement, shall be treated by the Commission as fees and expenses related to compliance with the covenants of the Indenture and shall be included in the amounts required to be budgeted and requested under the Amended and Restated Indenture.

The Trustee is hereby directed to establish separate Accounts within each Fund, and Subaccounts within each Account, for convenience of administration which are adequate to segregate moneys received with respect to each series of 2003 Bonds.

If Additional Bonds are issued for either Refunded Facility, the Commission shall provide, at its option, in the Supplemental Indenture pursuant to which such Additional Bonds are issued, for the operation of Accounts established for the payment of principal of and interest on such Additional Bonds.

Debt Service Reserve

The Commission may, at its option, establish a debt service reserve for the Bonds in a Supplemental Indenture. The amount of the debt service reserve requirement also shall be established in such Supplemental Indenture. **No debt service reserve is established for or available to any of the 2003 Bonds.**

Replacement Reserve Fund

Upon the instruction or request of the Commission pursuant to the Indenture, the Trustee will disburse amounts in the Replacement Reserve Fund for a Facility, as follows:

- (a) For payment of the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility;
- (b) To a related Fund or Account to the extent of any deficiencies therein; and
- (c) To the General Fund, any amounts in excess of that needed to pay costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for the next two years for such Facility.

General Fund

Upon delivery of written instructions executed by an authorized officer of the Commission, the Trustee will disburse amounts in the General Fund from time to time as follows and in the following order of priority.

First, to the other Funds and Accounts under the Indenture, *pro rata* to the extent of any deficiencies therein and in the priority established for distribution of moneys under the Revenue Fund.

Second, to the Commission, (a) for the payment of Commission expenses related to a Facility, (b) to the payment of any refund to any person, including the Department of Administration, of any rents, rates, fees or charges received by the Commission from such person for use and occupancy of the Facility, or (c) for any lawful purpose of the Commission as determined by resolution of the Commission.

Rebate Fund

The Trustee is required to pay to the Rebate Fund related to a particular Facility such amounts, if any, from such Funds and Accounts under the Indenture as are required pursuant to the Rebate Memorandum. Amounts in the Rebate Fund, other than any excess amounts which may be authorized to be transferred to a Fund or Account under each Indenture at the written direction of an authorized officer of the Commission, will be held by the Trustee for payment to the United States of America, as required pursuant to such Rebate Memorandum. The Trustee will make such payments or otherwise disburse amounts in the Rebate Fund at such times and in such amounts as may be required pursuant to such Rebate Memorandum.

2003 Interest Stabilization Fund

The 2003 Interest Stabilization Funds to be established under the 2003 Supplemental Indentures will be held by the Commission (and not the Trustee) and are not a part of the Trust Estate related to the Refunded Facilities, and amounts therein may only be used for the purposes set forth in the 2003 Supplemental Indentures.

The 2003 Interest Stabilization Funds will be established primarily to provide for fluctuations in interest rates on each series of 2003 Bonds, which are Variable Interest Rate Bonds. Funds held in the 2003 Interest Stabilization Funds may be used by the Commission (A) first, for deposit with the Trustee to pay principal of or interest on the applicable 2003 Bonds or to remedy any deficiencies in the respective Interest Account or the Principal Account, (B) second, to pay any amounts owing to the Bond Insurer, (C) third, to pay any amounts owing to a Liquidity Provider with respect to any 2003 Reimbursement Obligations, (D) fourth, to pay any amounts owing to a 2003 Hedge Provider under any 2003 Hedge Agreement, (E) fifth, for deposit with the Trustee and transfer to any other related Fund or Account to cure any deficiencies therein, and (F) sixth, for deposit with the Trustee and transfer to the General Fund.

Investments

Moneys held in the Revenue Funds, the Operation and Maintenance Funds, the Debt Service Funds, the Replacement Reserve Funds, the Rebate Funds, and the General Fund will be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities, maturing not later than such times as shall be necessary to provide moneys for payments required to be made from such Funds. Moneys held in the Construction Funds may be invested and reinvested by the Trustee in Investment Securities maturing not later than such times as may be necessary to provide moneys when needed to provide payments from such Fund (as indicated in a written draw-down schedule provided by the Commission). The Trustee will make all such investments of moneys held by it in accordance with written instructions from an authorized officer of the Commission or, in the absence of such written instructions, in securities described in clause (xiii) of the definition of "Investment Securities" until instructed in writing by the Commission to invest otherwise.

Earnings on any moneys or investments in all Funds, Accounts and Subaccounts established under the Indenture will be retained in the respective Funds, Accounts and Subaccounts for the purposes provided therein, all subject to the provisions of the Indenture governing the Rebate Fund; except that earnings on all Accounts of the Construction Fund related to a Facility (except an Interest Account) and any debt service reserve fund will be deposited in the Project Account prior to the projected Commencement Date for such Facility. All Investment Securities acquired with moneys in any Fund, Account or Subaccount, including any Fund, Account or Subaccount held by the Commission, will be held by the Trustee or the Commission in trust or by a Depository as agent in trust in favor of the Trustee or Commission in accordance with the Indenture.

In computing the amount in any Fund, Account or Subaccount created under the Indenture for any purpose provided in the Indenture, obligations purchased as an investment of moneys in such Fund, Account or Subaccount will be valued at the amortized cost of such obligations, determined in accordance with the Indenture; provided that an authorized officer of the Commission, in its discretion, may direct the Trustee in writing to use the fair market value method of valuation from time to time.

Annual Budgets

On or before the first day of August of each year while Bonds are outstanding, the Commission shall prepare and file with the Trustee its proposed annual budget forecast for the ensuing two Fiscal Years which shall set forth in reasonable detail with respect to each Facility: (i) the estimated Gross Revenues for such Fiscal Years; (ii) to the extent the Commission is obligated under the Use and Occupancy Agreement or otherwise, to operate, maintain or repair such Facility or any portion thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the applicable Use and Occupancy Agreement or otherwise for such Facility or such portion thereof for such Fiscal Years; (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering such Facility; (iv) the estimated Debt Service on all related series of Bonds for such Fiscal Years; (v) the required deposits, if any, to any debt service reserve fund for such Fiscal Years; and

(vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. In the event the proposed annual budget forecast for any Fiscal Year forecasts a deficiency in the Net Revenues resulting from the funds appropriated for such Fiscal Year to the Department of Administration or any other State agency for the payment of the Department of Administration's or other State agency's obligations under such related Use and Occupancy Agreement, the Commission shall cause a budget request to be made at the next session of the General Assembly to cure such deficiency.

As soon as available after the end of each legislative session of the State during an odd-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budgets adopted by the Commission for the ensuing two Fiscal Years for each Facility which shall set forth in reasonable detail: (i) the estimated Gross Revenues for such Fiscal Years; (ii) to the extent the Commission is obligated under the related Use and Occupancy Agreement or otherwise, to operate, maintain or repair the Facility or any portion thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the related Use and Occupancy Agreement or otherwise for such Facility or portion thereof for such Fiscal Years; (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering such Facility; (iv) the estimated Debt Service on all related series of Bonds for such Fiscal Years, (v) the required deposits, if any, to any debt service reserve fund for such Fiscal Years; and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. As soon as possible after the end of each legislative session of the State during an even-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budget adopted by the Commission for the ensuing Fiscal Year which shall set forth those matters required by the preceding sentence for such Fiscal Year. The Commission also may at any time adopt an amended annual budget for the remainder of the then current Fiscal Year.

Annual Audits

As soon as available after the end of each Fiscal Year, so long as any Bonds are outstanding, the Commission will file with the Trustee the general purpose financial statements of the Commission as prepared for such Fiscal Year, together with the accompanying opinion of the State Board of Accounts. If such statements are audited by an independent auditor, the Commission will file such financial statements, together with the auditor's report, with the Trustee within 120 days after the end of such Fiscal Year.

Operation, Maintenance and Repair of Facility

The Indenture requires that the Commission must at all times (1) operate or cause the applicable Facilities to be operated properly and in an efficient and economical manner, and (2) maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and (3) from time to time make, or use its best efforts

to cause to be made, all necessary or proper repairs, replacements and improvements so that at all times the operation of a Facility may be properly and advantageously conducted.

Rents, Rates, Fees and Charges

The Commission will fix, establish and maintain rents, rates, fees and charges that are reasonably expected to yield during each Fiscal Year in which a Facility, or any portion thereof, is available for use and occupancy an amount which, together with any available amounts in the related Construction Fund, is equal to at least: (a) in the event the Commission is obligated under the related Use and Occupancy Agreement or otherwise to operate, maintain or repair such Facility, or any portion thereof, at its expense, 100% of the expenses of operation, maintenance and repair to be incurred as an expense of the Commission (under the related Use and Occupancy Agreement or otherwise) for such Fiscal Year for such Facility or any portion thereof; (b) 100% of the expenses to be incurred by the Commission in managing and administering such Facility or such portion thereof and in complying with the covenants of the Indenture; (c) 100% of the Debt Service on all related series of Bonds under the Indenture for such Fiscal Year; (d) 100% of the required deposits, if any, to any debt service reserve fund during such Fiscal Year; and (e) one-sixth of such amount as annually estimated by the Commission, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility, or portion thereof, to be incurred through the end of the sixth Fiscal Year commencing on the first day of such Fiscal Year. Prior to the onset of each Fiscal Year, the Commission will review the rents, rates, fees and charges as necessary to comply with the foregoing requirements, provided that such rents, rates, fees and charges will in any event produce moneys sufficient to enable the Commission to comply with all covenants under the Indenture. Notwithstanding the foregoing, the Department of Administration has the right not to renew its obligations at the end of any term under each Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and the Department's right to the use and occupancy of such Facility, without affecting its right to use and occupy any other Facility under any other Use and Occupancy Agreement.

In such event, the Commission, in fixing rents, rates, fees or charges for such Facility which continues to be leased to the Department of Administration, must not establish rents, rates, fees or charges for such Facility in excess of such Facility's allocable share of the amounts described in clauses (b), (c) and (d) described above, determined by taking into account the amount of Bond proceeds used to finance the Facility under the Indenture. Rents, fees and charges for such Facility related to the amounts described in clauses (a) and (e) described above will be based on the costs directly related to each Facility.

The Indenture provides that, to the extent permitted by law and subject to the provisions of the Indenture, including the Commission's tax covenants, the Commission may lease a portion of a Facility to an entity which is not a State agency. The Commission will lease vacant space in a Facility first a State agency needing space prior to leasing to such entities. Also, to the extent permitted by law, the Commission will enforce the payment of any and all accounts owing to the Commission by reason of its ownership and operation of a Facility.

The Commission will use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration and each State agency obligated to pay rentals on account of the leasing by the Department of Administration or such agency of space in a Facility pursuant to the related Use and Occupancy Agreement moneys sufficient to enable the Commission to comply with its obligations under the Indenture. The Indenture requires that the Use and Occupancy Agreements must provide that the Department of Administration or any State agency subleasing thereunder must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Commission to comply with its obligations under the Indenture.

The Indenture provides that, in the event the Department of Administration is required to vacate a Facility, or any portion thereof, because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to the related Use and Occupancy Agreement or because the Department of Administration elects not to renew such Use and Occupancy Agreement at the end of any term, the Commission will use its best efforts to cause such Facility or portion thereof to be leased to generate moneys sufficient to enable the Commission to comply with its obligations under the Indenture, subject to the requirements for any such leasing under the Indenture. See "Tax Covenants" below.

Insurance, Completion of Performance

The Commission will at all times, including all times prior to and after the completion of Acquisition of a Facility, keep or cause to be kept each Facility insured against loss or damage by fire and from other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of the then related Bonds outstanding or (b) 100% of the full replacement cost of such Facility; provided, however, such insurance may contain a reasonable loss deductible clause. In addition, the Commission will at all times, including all times prior to and after the completion of Acquisition of each Facility, use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to such Facility.

The Indenture requires that the Commission must maintain or cause to be maintained such performance bond or performance insurance with respect to contracts it may enter into for the Acquisition of such Facility as is usually maintained by those Acquiring properties similar to such Facility.

The Commission will at all times maintain or cause to be maintained business interruption loss insurance to insure against loss of projected annual rental income payable pursuant to the related Use and Occupancy Agreement, or any other lease of a Facility, or portion thereof, for such time (being at least for a period of twelve months) as use of such Facility or portion thereof is interrupted by damage or destruction from perils insured against under a standard extended coverage endorsement. Such insurance will also be carried with respect to any portion of a Facility not then occupied pursuant to the applicable Use and Occupancy Agreement in an amount equal to the fair rental value of such portion, all as are reasonably necessary to meet its obligations under the Indenture.

The Indenture requires the Commission to use its best efforts to maintain or cause to be maintained any additional or other insurance as it deems necessary or advisable to protect the interests of the Commission and the owners of the Bonds.

Under the Indenture, policies or contracts for insurance must be in a form and with insurers of good standing or with an insurance group or state insurance pool acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission. Performance bonds must be in a form and with an issuer acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission.

If (a) the performance of any contract for the Acquisition of a Facility is not completed in accordance with its terms and (b) in the opinion of an independent registered architect or registered engineer who is acceptable to the Trustee, the cost of completion of such performance will not exceed the amount of proceeds from any performance bond or performance insurance to be received by reason of such noncompletion of performance, together with other available funds (including without limitation proceeds from any series of Bonds authorized and issued under the Indenture for such purpose), then the Commission will continuously and diligently complete or cause to be completed such performance as expeditiously as possible.

Damage, Destruction

The Indenture provides that if any Facility is damaged or destroyed and, in the opinion of an independent registered architect or registered engineer who is acceptable to the Trustee, (a) the cost of such repair, replacement or reconstruction will not exceed the amount of insurance proceeds to be received by reason of such damage or destruction and other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under such Indenture for such purpose), and (b) such repair, replacement or reconstruction can be completed within the period covered by the rental value, insurance or other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under the Indenture for such purpose), the Commission must, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted repair, reconstruction or replacement thereof; provided, if such conditions are not met in the event of total or substantial destruction of such Facility, the Commission will request the Trustee to redeem the allocable Bonds from the available proceeds pursuant to the extraordinary redemption provisions of the Indenture. See "DESCRIPTION OF 2003 BONDS - Redemption - Extraordinary Redemption" in the Official Statement. The Indenture provides that within 120 days after either the noncompletion of performance of any contract for Acquisition of any Facility or the occurrence of an event of damage or destruction to any Facility, the Commission must deliver to the Department of Administration and the Trustee the appropriate written opinion of the architect or engineer referred to in the preceding sentences, stating whether the required conditions have been satisfied. The proceeds from any performance bond or performance insurance paid on account of noncompletion of performance and the proceeds from any insurance paid on account of such damage or destruction (other than any business interruption loss insurance) will be deposited with and held by the Trustee in the related Construction Fund and made available for, and to the extent necessary be applied to, the costs of such completion of performance or such repair, reconstruction or replacement. Pending

application, such proceeds may be invested by the Trustee in Investment Securities which mature not later than such times as may be necessary to provide moneys when needed to pay such costs.

Interest earned on such investments will be deposited in the related Revenue Fund. If the Commission notifies the Trustee that the proceeds from insurance paid on account of damage or destruction will be applied to redeem Bonds in accordance with the terms of the Indenture, then such proceeds will be applied by the Trustee in accordance with the Indenture. Otherwise, such proceeds shall be applied to the cost of repair, reconstruction or replacement as described above. If proceeds are held in the related Construction Fund for the costs of completing performance or repair, reconstruction or replacement, the Commission will notify the Trustee of completion of performance or of costs of the completion of the repair, reconstruction or replacement in writing. The Trustee will apply such balance of funds in such Construction Fund to remedy the deficiencies in any of the related Funds and Accounts, and if there exists no such deficiency or if such proceeds exceed the amount necessary to remedy such deficiency, such proceeds or the excess thereof, as the case may be, will be applied to any lawful purpose of the Commission. In the event the Commission has failed to complete such performance or failed to repair, replace or reconstruct any damaged or destroyed Facility or has abandoned or failed to prosecute such completion or action diligently, the Trustee may, in its discretion, complete such performance or make such repairs, replacements or reconstructions and enter upon the premises of the Facility to the extent necessary to accomplish such purpose. However, the Trustee will not be obligated to complete or cause the completion of such performance or make any such repairs, replacements or reconstructions unless (a) it has been requested to do so by the holders of not less than ten percent in aggregate principal amount of all Bonds then outstanding and (b) it has been indemnified, to its satisfaction, against any loss, damage or expense which it might thereby incur.

All proceeds of business interruption loss insurance maintained and received under the Indenture will be paid into the related Revenue Fund.

Additional Bonds

One or more series of Additional Bonds may be issued, without limitation as to amount and at any time, for the purpose of paying Acquisition Costs of a Facility or refinancing an obligation (other than Bonds) used to pay such cost. Such Additional Bonds issued for a particular Facility will be authenticated and delivered by the Bond Registrar only upon receipt by the Trustee of certain documents required by the Indenture including, but not limited to:

- (a) a certificate of an authorized officer of the Commission, stating that the related Use and Occupancy Agreement for the Facility will provide sufficient Gross Revenues to provide for the payment with respect to all related series of Bonds;

- (i) to the extent the Commission is obligated under such Use and Occupancy Agreement or otherwise to operate, maintain or repair such Facility, or portion thereof, at its expense, the expenses of operation, maintenance and repair incurred and expected to be incurred as an expense of the Commission pursuant to such Use and Occupancy Agreement or otherwise during each such Fiscal Year (or applicable portion thereof) for such Facility or portion thereof;

- (ii) the Debt Service for all related series of Bonds;
 - (iii) the required deposits, if any, to any debt service reserve fund related to such Facility; and
 - (iv) to the extent authorized or permitted by the Act, for each such Fiscal Year, one-sixth (1/6) of such amount as the Commission annually estimates is required, after considering amounts on deposit in the Replacement Reserve Fund under the Indenture on the first day of each such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility incurred and expected to be incurred through the end of the sixth Fiscal Year commencing on the first day of each such Fiscal Year (or applicable portion thereof);
- (b) a certificate of the Chairman or Secretary of the Commission stating that:
- (i) sufficient funds will be paid into the Debt Service Fund or the Construction Fund related to such Facility to provide for the Debt Service for the related series of Bonds to be issued until such time as rental rates providing sufficient Net Revenues will begin to be paid to the Commission pursuant to the respective Use and Occupancy Agreement; and
 - (ii) sufficient funds will be paid into any debt service reserve fund to provide for the related debt service reserve requirement.

If an Additional Facility to be financed or refinanced from the proposed series of Additional Bonds is not included under an existing Use and Occupancy Agreement, then the Commission is required to deliver to the Trustee prior to the issuance of such Additional Bonds an executed copy of an Additional Use and Occupancy Agreement for the Additional Facility to be financed from such Bonds, certified by the Chairman or Secretary of the Commission. Such Additional Use and Occupancy Agreement must contain provisions for the term and termination of such Additional Use and Occupancy Agreement, the payment and determination of rentals for the related Facility, and the maintenance of insurance which are materially similar to those contained in the existing Use and Occupancy Agreements. If the Additional Bonds are proposed to be issued to complete, improve, renovate, refurbish or alter a Facility already under a Use and Occupancy Agreement, such Use and Occupancy Agreement will be amended to reflect the issuance of such series of Additional Bonds.

Refunding Bonds

One or more series of Refunding Bonds may be issued at any time to refund outstanding Bonds or portion of outstanding Bonds of any series or portion thereof under the Indenture. Refunding Bonds may be issued in a principal amount sufficient, together with other moneys available therefor, to effect such refunding and to make the deposits in the funds and accounts related to the Refunding Bonds only upon receipt by the Trustee, in addition to certain other documents required by the Indenture, of the following:

(a) Instructions satisfactory to the Trustee to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions, subject to the provisions of such Indenture;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, instructions satisfactory to the Trustee to make due publication of the notice provided for in the Indenture to the holders of the Bonds being refunded; and

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable redemption price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys will be held by the Trustee or the Paying Agent in a separate account irrevocably in trust for and assigned to the respective holders of the Bonds to be refunded, or (ii) Defeasance Securities (defined in the Amended and Restated Indenture) in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys as shall be necessary to comply with such Indenture, which Defeasance Securities and moneys will be held in trust and used only as provided therein.

Extension of Payment of Bonds

The Commission will not directly or indirectly extend or assent to the extension of the maturity of any Bonds or the time of payment of any claims for interest by the funding of any Bonds or claims for interest or by any other arrangement and, in case the maturity of any Bonds or the time for payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of moneys held and pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by any Fiduciary, except subject to the prior payment of the principal of all Bonds outstanding, the maturity of which has not been extended, and of such portion of the accrued interest on such Bonds as is not represented by such extended claims for interest. Any issuance of Refunding Bonds is not, and may not be deemed to be, an extension of the maturity of any other Bonds.

Payment of Taxes and Charges

The Indenture requires the Commission from time to time to duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, if any, or required payments in lieu thereof, lawfully imposed upon a Facility or upon the rights, revenues, income, receipts and other moneys, securities and funds of the Commission with respect to such Facility when the same become due (including all rights, moneys and other property transferred, assigned or pledged under such Indenture), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Commission may in good faith contest by proper legal proceedings if the Commission has, in all such cases, set aside on its books reserves deemed adequate with respect thereto.

Tax Covenants

In the Indenture, the Commission agrees that it will make no use of proceeds of any Tax-Exempt Bonds, or of amounts which may be treated as proceeds thereof, which could cause such Tax-Exempt Bonds to be or become "arbitrage bonds" within the meaning of Section 148 of the Code, or any successor provisions.

The Commission covenants in the Indenture that it will not take any action or fail to take any action with respect to the proceeds of any Bonds or ownership or use of a Facility, or any portion thereof, that would result in loss of the exclusion from gross income for federal income tax purposes of interest paid on any Tax-Exempt Bonds.

The Indenture requires that the Use and Occupancy Agreements must provide that unless the Commission obtains an opinion of nationally recognized bond counsel to the effect that the lease or sublease of a Facility, or any portion thereof to, or a use of the Facility or such portion thereof by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds, neither the Facility, nor a portion thereof, will be let or sublet to any person other than a State agency, and neither the Facility, nor such portion thereof, will be used by any person (natural or otherwise) in a trade or business, except one who is using the Facility, or such portion thereof, in his or her capacity as an Employee (as defined in the Indenture). Each Use and Occupancy Agreement must provide that the Commission may enter into a management agreement with the Department of Administration or any State agency to manage a Facility, but shall not enter into a management agreement with any other person (natural or otherwise) in a trade or business unless, in the opinion of nationally recognized bond counsel, such agreement will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds.

The Indenture requires the Commission, not later than the first day of the second calendar month after the close of the calendar quarter in which any Tax-Exempt Bonds were issued (or such other time as may be required by the Code or regulations promulgated thereunder), file a statement with the Internal Revenue Service and the Trustee concerning the Bonds which contains that information required by Section 149 of the Code and any regulations promulgated thereunder.

Defaults, Remedies

Definition. If, for any Facility or the Bonds related to such Facility, one or more of the following Events of Default or any additional Event of Default set forth in a Supplemental Indenture shall happen:

(a) a default is made in the due and punctual payment of the principal or redemption price of any Bond related to such Facility when and as the same becomes due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(b) a default is made in the due and punctual payment of any installment of interest on any Bond related to such Facility or the unsatisfied balance of any sinking fund installment (except when such sinking fund installment is due on the maturity date

of such Bond), when and as such interest installment or sinking fund installment becomes due and payable;

(c) a default is made by the Commission in the performance or observance of any other of the covenants, agreements or conditions in the Indenture related to such Facility or to the Bonds related to such Facility, and such default has continued for a period of 60 days after written notice specifying such default, requiring that it be remedied and stating that such notice is a "Notice of Default" under such Indenture shall have been given to the Commission by the Trustee or to the Commission and the Trustee by the holders of not less than 25% in principal amount of the Bonds related to such Facility outstanding; or

(d) a court having jurisdiction in the premises enters a decree or order providing for relief in respect of the Commission in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Commission for any substantial part of the property of the Commission, or ordering the winding-up or liquidation of its affairs, and such decree or order remains unstayed and in effect for a period of 90 days;

then, and in each and every such case, so long as such event of default has not been remedied, unless the principal of all the Bonds related to such Facility has already become due and payable, the Trustee may or, upon the direction of the holders of not less than 25% in principal amount of such Bonds then outstanding (by notice in writing to the Commission and the Trustee), must declare the principal of all the Bonds related to such Facility then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable; provided, however, the principal of and interest on any series of Bonds may not be declared immediately due and payable without the prior written consent of the provider of any Credit Facility with respect to such series to the extent provided for in the Supplemental Indenture under which such series of Bonds is issued. The right of the Trustee or of the holders of not less than 25% in principal amount of the Bonds outstanding related to such Facility to make any such declaration, however, is subject to the condition that if, at any time after such declaration, but before such Bonds have matured by their terms, all overdue installments of interest on such Bonds, together with interest on such overdue installments of interest, to the extent permitted by law, and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Commission under the Indenture (except the principal of and interest accrued since the next preceding interest date on such Bonds due and payable solely by virtue of such declaration) have either been paid by or for the account of the Commission, or provisions satisfactory to the Trustee have been made for such payment, and all defaults under such Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) have been made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then and in every such case the holders of 25% in principal amount of such Bonds outstanding, by written notice to the Commission and the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee has acted itself, and if there has not been theretofore delivered to such Trustee written direction to the contrary by the holders of 25% in principal amount of such Bonds outstanding, then any such declaration

will *ipso facto* be deemed to be rescinded and any such default will *ipso facto* be deemed to be annulled, but no such rescission or annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon the occurrence of any event of default, so long as such event of default has not been remedied, and upon the demand of the Trustee, the Commission will account, as if the Commission were the trustee of an express trust, for all applicable Net Revenues and other moneys, securities and funds pledged or held under the Indenture for the period stated in the Trustee's demand.

Application of Revenues, Other Moneys. During the continuance of an event of default for Bonds related to a particular Facility, the Trustee will (a) request that the Commission immediately release to the Trustee all Net Revenues then held by the Commission and (b) apply the Trust Estate for such Bonds held by it pursuant to the Indenture (except for the moneys, securities and funds held in the Rebate Fund under the Indenture which will continue to be used for the purpose therein) or received by it pursuant to any right given or action taken under the Indenture as follows and in the following order:

(i) Expenses of Fiduciaries — to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for such Bonds;

(ii) Rebate — to the payment of any rebate obligation for such Bonds owed under Section 148 of the Code, to the extent sufficient funds are not available in the Rebate Fund;

(iii) Principal or Redemption Price and Interest — to the payment of the interest and principal or redemption price then due on such Bonds outstanding, as follows:

(a) unless the principal of all of such Bonds has become or has been declared due and payable,

FIRST: Interest — To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on such Bonds theretofore called for redemption, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: Principal or Redemption Price — To the payment to the persons entitled thereto of the unpaid principal or redemption price of any such Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all such

Bonds due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference;

(b) if the principal of all of such Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal, interest or premium, if any, over the other, or of any installment of interest over any other installment of interest or of any such Bond over any other such Bond or of any series over any other series under the Indenture, ratably, according to the amounts due respectively for principal, interest and premium, if any, to the persons entitled thereto without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds;

(iv) Replacement Reserve Expenses — to the payment of the amounts required for reasonable and necessary costs of major non-recurring maintenance, repairs, improvements, equipment or replacements of all the related Facilities necessary in the judgment of the Trustee to prevent a loss of Gross Revenues for all the related Facilities under such Indenture;

(v) Subordinated Indebtedness — to the payment of principal, redemption price and interest then due on subordinated indebtedness of the Commission.

If and whenever all overdue installments of interest on all such Bonds outstanding, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the Commission under the Indenture, including the principal and redemption price of and accrued unpaid interest on all such Bonds which are then payable, have either been paid by or for the account of the Commission, or provision satisfactory to the Trustee has been made for such payment, and all defaults under such Indenture or such Bonds have been made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, the Trustee will pay over to the Commission all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the Indenture to be deposited or pledged, with the Trustee), and thereupon the Commission and the Trustee will be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Commission by the Trustee and no such restoration of the Commission and the Trustee to their former positions and rights will extend to or affect any subsequent default under such Indenture or impair any right consequent thereon.

Proceedings by Trustee. Upon the occurrence of an event of default for Bonds related to a particular Facility, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the holders of not less than 25% in principal amount of such Bonds outstanding, so long as such event of default has not been remedied, must proceed, to protect and enforce its rights and the rights of the holders of such Bonds forthwith by a suit or

suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted or any remedy granted under the Act or for an accounting against the Commission as if it were the trustee of an express trust or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, deems to be the most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of such Bonds or the production thereof on the trial or other proceedings, and the Trustee will bring any such suit or proceedings in its name.

The holders of not less than a majority in principal amount of such Bonds at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, that the Trustee will have the right to decline to follow any such direction if: (a) the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken; (b) the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability, unless such holders agree to indemnify the Trustee against such liability and post bond in respect of such indemnity; or (c) the Trustee in good faith determines that the action or proceeding so directed would be unjustly prejudicial to the related holders of such Bonds not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee will be entitled to exercise any and all rights and powers conferred in such Indenture and provided to be exercised by the Trustee upon the occurrence of any event of default.

Regardless of the happening of an event of default under the Indenture, the Trustee will have power to, but unless requested in writing by the holders of 25% in principal amount of such Bonds then outstanding, and furnished with reasonable security and indemnity, will be under no obligation to, institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under such Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interests of the holders of such Bonds outstanding.

Rights, Remedies. No holder of any Bond in default will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such holder has previously given to the Trustee written notice of the happening of any event of default and the holders of at least 25% in principal amount of such Bonds then outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the Act or to institute such action, suit or proceeding in its own name, and unless such holders have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and

intended that no one or more holders of Bonds outstanding will have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under such Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all holders of the Bonds outstanding subject only to the provisions respecting extension of payment of such Bonds.

The Indenture requires the Trustee to promptly mail written notice by first class mail of the occurrence of any event of default related to a particular Facility to each registered owner of related Bonds then outstanding at such owner's address, if any, appearing on the registration books of the Commission.

Notwithstanding anything in the Indenture to the contrary, a default on Bonds related to a particular Facility will not affect any Bonds related to any other Facility, and no such default shall give rise, in and of itself, to a default on any other Bond related to any other Facility.

Nonexclusivity of Remedies. No remedy conferred upon or reserved to the Trustee or the holders of Bonds outstanding is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given under or existing at law, including under the Act, or in equity or by statute on or after the date of execution and delivery of the Indenture.

Waiver of Events of Default. The Indenture provides that no delay or omission of the Trustee or any holder of any Bonds outstanding to exercise any right or power arising upon the happening of an event of default will impair any right or power or will be construed to be a waiver of any such event of default or be an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by Bondholders.

Prior to the declaration of maturity of Bonds as provided in the Indenture, the holders of not less than a majority in aggregate principal amount of the Bonds in default then outstanding under the Indenture, or their attorneys-in-fact duly authorized, may on behalf of the holders of all the Bonds outstanding waive any past default under such Indenture and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds outstanding. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

Supplemental Indentures, Amendments

The Commission may without the consent of the Trustee or any of the owners of Bonds enter into any Supplemental Indenture, effective upon certification by the Chairman or Secretary of the Commission and filing with the Trustee, for any one or more of the following purposes:

- (a) To close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidence of indebtedness;

(b) To add other covenants, agreements, limitations and restrictions to be observed by the Commission that are not contrary to or inconsistent with such Indenture;

(c) To add additional events of default under the Indenture;

(d) To authorize a series of Bonds related to a particular Facility or a portion thereof, in accordance with the Indenture;

(e) With the prior written opinion of nationally recognized bond counsel to the effect that to do so will not affect the excludability of interest on any Tax-Exempt Bonds from gross income for federal income tax purposes, to authorize, in accordance with such Indenture and in compliance with all applicable laws, Bonds of each series to be issued in the form of coupon Bonds registrable as to principal only;

(f) To authorize, in accordance with the Indenture and in compliance with all applicable law, Bonds of any series to be issued in the form of Bonds issued and held in book-entry form on the books of the Commission or any Fiduciary appointed for that purpose by the Commission;

(g) To authorize subordinated indebtedness of the Commission in accordance with the Indenture, or to amend, modify or rescind any such authorization at any time prior to the first authentication and delivery of such subordinated indebtedness;

(h) To confirm, as further assurance, any security interest, pledge or assignment under the Indenture of the Trust Estate or of any other real or personal property or other rights, or to add to any security interest, pledge or assignment created or to be created by the Indenture any real or personal property or other rights;

(i) To modify any of the provisions of the Indenture in any other respect whatever; provided that (a) such modification must be, and be expressed to be, effective only after all Bonds of each series outstanding at the date of the adoption of such Supplemental Indenture cease to be outstanding, and (b) such Supplemental Indenture must be specifically referred to in the text of all Bonds of any series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(j) To appoint or remove the Trustee;

(k) To modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;

(l) To modify, amend or supplement the Indenture or any Supplemental Indenture to permit the issuance of Bonds and subordinated indebtedness in the form of debt instruments not then described by the Indenture, including, but not limited to, debt instruments bearing interest subject to federal income taxation under the Code;

(m) To modify, amend or supplement the Indenture to the extent necessary to enable the Commission to comply with its tax covenants under the Indenture;

(n) To make any other modification or amendment of the Indenture which the Commission determines in good faith will not have a material adverse effect on the interests of the Bondholders; or

(o) To authorize financial products, including, but not limited to, forwards, hedges and swaps, of any kind or description and, in connection therewith, specify and determine such matters and things relative thereto.

In addition, the Commission may, with the consent of the Trustee, but without the consent of any of the owners of Bonds, enter into any Supplemental Indenture, effective upon certification by the Chairman or the Secretary of the Commission and filing with the Trustee, for any one or both of the following purposes, if such would not materially adversely affect the interests of Bondholders:

(a) To cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture; or

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

The Indenture provides that any other modification or amendment of the Indenture and of the rights and obligations of the Commission (including without limitation any modification or amendment of the Commission's tax covenants under the Indenture), and of the holders of the Bonds thereunder, in any particular, may be made in accordance with the notice and other requirements of the Indenture by a Supplemental Indenture, with the written consent given as provided in the Indenture (a) of the holders of not less than a majority in principal amount of such Bonds outstanding at the time such consent is given, (b) in case less than all of the several series of such Bonds then outstanding are affected by the modification or amendment, of the holders of not less than a majority in principal amount of such Bonds of each series so affected and outstanding at the time such consent is given, and (c) in case the modification or amendment changes the terms of any sinking fund installment, of the holders of not less than a majority in principal amount of such Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given. Bonds owned or held by or for the account of the Commission will not be deemed outstanding for purposes of calculating consent or other action by owners of Bonds outstanding.

No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the holder of such Bond, or reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. No modification will be deemed effective to change any right or

obligation of the Trustee or any other Fiduciary without the written consent of such Fiduciary. A series of Bonds will be deemed to be affected by a modification or amendment of an Indenture if such modification or amendment adversely affects or diminishes the rights of the holders of Bonds of such series. The Trustee has the authority to determine conclusively whether any particular series or maturity of Bonds would be adversely affected by any such modification or amendment.

Defeasance

The Indenture provides that, if the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of all Bonds outstanding (under the Indenture), the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in such Bonds and in the Indenture, then the pledge of the Trust Estate and all covenants, agreements and other obligations of the Commission to such Bondholders will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and, upon the request of the Commission, all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries will pay over or deliver to the Commission all moneys or securities held by them pursuant to such Indenture which are not required for the payment of principal or redemption price, if applicable, and interest due or to become due on such Bonds not theretofore surrendered for such payment or redemption. If the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of any outstanding Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, the Bonds will cease to be entitled to any benefit or security under the Indenture, and all covenants, agreements and obligations of the Commission to the holders of such Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Bonds issued under the Indenture will be deemed to have been paid within the meaning and with the effect expressed above if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Commission has given to the Trustee instructions accepted in writing by the Trustee to mail as provided in the Indenture notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Commission or purchased or otherwise acquired by the Commission and delivered to the Trustee prior to the mailing of such notice of redemption) on such date, (b) there have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when due will provide moneys which together with the moneys, if any, on deposit with the Trustee at the same time, are sufficient to pay when due the principal or redemption price, if applicable, and interest due and to become due on such Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Commission has given the Trustee in form satisfactory to it instructions to mail as soon as practicable, a notice to the holders of such Bonds at their last addresses appearing upon the registration books at the close of business on the last business day of the month preceding the month for which notice is mailed that the deposit

required by clause (b) above has been made by the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected, subject to the Indenture, to be available for the payment of the principal or redemption price, if applicable, on such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Commission or purchased or otherwise acquired by the Commission and delivered to Trustee prior to the mailing of the notice of redemption referred to in clause (a) above).

Bond Insurance; Rights of the Bond Insurer

Notwithstanding anything in the Indenture to the contrary, as long as the Bond Insurance Policies are in effect and the Bond Insurer is not in default of its payment obligation under the Bond Insurance Policies, with respect to the 2003 Bonds:

The Bond Insurer will be deemed to be the sole holder of the 2003 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction pursuant to Articles XI and XII of the Amended and Restated Indenture or taking any other action that the holders of the 2003 Bonds are entitled to take pursuant to Article IX of the Amended and Restated Indenture pertaining to defaults and remedies and Article X of the Amended and Restated Indenture pertaining to the duties and obligations of the Trustee.

The 2003 Bonds will not be accelerated without the consent of the Bond Insurer, and in the event the maturity of the 2003 Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued to the date of acceleration (to the extent unpaid by the Commission) and the Trustee will be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided in the Indenture, the Bond Insurer's obligations under the Bond Insurance Policies with respect to the 2003 Bonds insured thereunder will be fully discharged.

No modification or amendment to the Indenture or any other transaction document including any underlying security agreement (each a "Related Document") which adversely affects the security for the 2003 Bonds or the rights of the Bond Insurer may become effective except upon obtaining the prior written consent of the Bond Insurer.

The rights granted to the Bond Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policies. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and will not be construed or deemed to be taken for the benefit or on behalf of Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

The Bond Insurer will be entitled to pay principal or interest on the 2003 Bonds that will become Due for Payment but will be unpaid by reason of Nonpayment by the Commission (as such terms are defined in the Bond Insurance Policies) and any amounts due on the 2003 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or

not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Bond Insurance Policies) or a claim upon the Bond Insurance Policies.

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the 2003 Bonds or the rights of the Bondholders, the Trustee will consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policies in effect.

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Appendix D

Summary of Certain Provisions of Continuing Disclosure Undertaking Agreement

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SUMMARY OF CERTAIN PROVISIONS OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT

What follows is a summary of certain provisions contained in the Continuing Disclosure Undertaking Agreement. This summary does not purpose to be comprehensive and is qualified in its entirety by reference to the Undertaking.

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission (the "SEC") in SEC Rule 15c2-12, as amended (the "Rule"), the Commission and the State will enter into a Continuing Disclosure Undertaking Agreement (the "Undertaking") with Bank One Trust Company, National Association, as counterparty (the "Counterparty"), to be dated the date of initial delivery of the 2003 Bonds. Pursuant to the Undertaking, the Commission and the State will agree to provide the following information while the 2003 Bonds are Outstanding:

- (a) *Audited Financial Statements.* To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository ("SID") then in existence, if any, when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2002, together with the independent auditor's report and all notes thereto; and
- (b) *Financial Information in this Official Statement.* To each NRMSIR then in existence and to the SID within 210 days of the close of each fiscal year of the State, beginning with the fiscal year ending June 30, 2002, annual financial information for the State for such fiscal year, other than the audited financial statements described above, including (i) unaudited financial statements of the State if audited financial statements are not then available and (ii) operating data (excluding any demographic information or forecasts) of the general type provided under the following headings in this Official Statement (collectively, the "Annual Information"):

"Appendix A: Financial and Economic Statement for the State of Indiana"

- (c) *Event Notices.* In a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, notice of any of the following events, if material:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions or events affecting the tax-exempt status of the 2003 Bonds;
 - (7) modifications to the rights of owners of the 2003 Bonds;
 - (8) 2002 Bond calls;
 - (9) defeasances;
 - (10) release, substitution or sale of property securing repayment of the 2003 Bonds; and
 - (11) rating changes.

The Commission or the State may from time to time choose to provide notice of the occurrence of any other event, in addition to those listed above, if, in the judgment of the Commission or the State such other event is material with respect to the 2003 Bonds and should be disclosed. Neither the Commission nor the State commits to provide any such notice of the occurrence of any material event except those events listed above.

- (d) *Failure to Disclose.* In a timely manner, to the Counterparty, each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, notice of the Commission's or the State's failure to provide the Annual Information as described above.

If any Annual Information or audited financial statements relating to the State referred to above no longer can be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Commission or the State to each NRMSIR and to the SID, along with any other Annual Information or audited financial statements required to be provided under the Undertaking, will satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Commission or the State will cause to be filed along with other Annual Information or audited financial statements, operating data similar to that, which can no longer be provided.

Remedy. The sole remedy against the Commission or the State for any failure to carry out any provisions of the Undertaking shall be for specific performance of the Commission's or the State's disclosure obligations under the Undertaking and not for money damages of any kind or in any amount or for any other remedy. The Commission's or the State's failure to honor its covenants under the Undertaking shall not constitute a breach or default of the 2003 Bonds, the Indenture or any other agreement to which the Commission or the State is a party.

Modification of Undertaking. The Commission, the State and the Counterparty may, from time to time, amend or modify the Undertaking without the consent of the owners of the 2003 Bonds if (a)(i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of execution thereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders of the 2003 Bonds, as determined either by (A) any person selected by the Commission and the State that is unaffiliated with the Commission and the State (including the Counterparty or the Trustee), or (B) an approving vote of the holders of 51 percent of Outstanding 2003 Bonds at the time of such amendment or modification; or (b) such amendment or modification is permitted by law or the Rule.

Counterparty's Obligation. The Counterparty will have no obligation to take any action whatsoever with respect to information or notices provided or required to be provided by the Commission or the State under the Undertaking (or of any Obligated Persons (as defined in the Rule) covered thereby), except as set forth below and except any obligations arising from the Counterparty serving as a Dissemination Agent, and no implied covenants or obligations shall be read into the Undertaking against the Counterparty. Further, the Counterparty shall have no responsibility to ascertain the truth, completeness, timeliness, or accuracy of the information or notices provided as required under the Undertaking by the Commission or any Obligated Person, nor as to its sufficiency for purposes of compliance with the Rule or the requirements of the Undertaking.

If the Counterparty has not received the Annual Information by the date required by the Undertaking, the Counterparty shall notify the Commission, the State and any Dissemination Agent, by registered or certified mail, that it has not received such Annual Information.

The Counterparty is obligated to, and agrees that it will, within five Business Days (defined in the Indenture) after mailing the notice referred to in the immediately preceding paragraph, forward to those persons or entities scheduled to receive Annual Information a notice in the event that the Counterparty has not received a copy of such Annual Information by the date required under the Undertaking; *provided, however, that* the Counterparty will not give such notices as described in this paragraph and the immediately preceding paragraph if the Commission or the State has provided the Counterparty with notice that the Commission or the State has issued notice of a failure to disclose as described above. Subsequent to the Counterparty's issuance of notice, if any, as described in this paragraph, the Counterparty will have no responsibility to take any further action concerning the Annual Information for the fiscal year to which such notice relates.

Appendix E

Proposed Opinions of Bond Counsel

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**PROPOSED OPINION OF BOND COUNSEL
RE: SERIES 2003C BONDS**

December __, 2003

Indiana State Office Building Commission
Indianapolis, Indiana

Re: Indiana State Office Building Commission
Facilities Revenue Refunding Bonds, Series 2003C
(Wabash Valley Correctional Facility)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana State Office Building Commission (the "Commission") of _____ Dollars (\$_____) aggregate principal amount of its Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 2003C (Wabash Valley Correctional Facility) (the "Bonds"), under and pursuant to (i) Indiana Code 4-13.5, as amended (the "Act"); (ii) the Amended and Restated Trust Indenture dated as of January 1, 1998, as previously amended and supplemented (the "Amended and Restated Indenture"), between the Commission and J.P. Morgan Trust Company, National Association (as successor to NBD Bank, N.A.), as trustee (the "Trustee"); and (iii) the Series 2003C Supplemental Trust Indenture dated as of November 1, 2003 (the "Series 2003C Supplement" and, together with the Amended and Restated Indenture, the "Indenture"), between the Commission and the Trustee, pursuant to which the terms of the Bonds are set forth.

We have examined (a) a certified transcript of proceedings relating to, among other things, the authorization, issuance and sale of the Bonds; the authorization and execution of the Indenture; the authorization and execution of the Use and Occupancy Agreement dated as of November 1, 1991, relating to the Wabash Valley Correctional Facility, as supplemented and amended by a First Supplemental Use and Occupancy Agreement dated as of July 1, 1995 (together, the "Use and Occupancy Agreement"), between the Commission and the Department of Administration (the "Department") of the State of Indiana (the "State"); and the approval of the Commission's Official Statement dated November __, 2003; (b) the Certificate of the Commission Regarding Arbitrage and Certain Federal Tax Matters dated the date of this opinion letter; (c) executed counterparts of the Indenture and the Use and Occupancy Agreement; (d) an opinion of the Attorney General of the State; and (e) certificates as to the execution, authentication and delivery of the Bonds and no litigation pending as of the date of this opinion letter.

We have examined the constitution and statutes of the State, including particularly the Act, and such other documents, statutes, certifications, records and matters of law as we have deemed necessary for purposes of this opinion.

We have relied upon the certified transcript of proceedings and certificates of public officials, including the tax covenants and representations of the Commission and the Department (collectively, the "Tax Covenants"), and we have not undertaken to verify any facts by independent investigation.

Based upon the examinations referred to above, we are of the opinion as of the date of this opinion letter that:

1. The Commission is a public body corporate and politic, validly existing under the Act, with full power and authority to execute and deliver the Indenture and the Use and Occupancy Agreement, and to issue and sell the Bonds.
2. The Bonds have been duly authorized, executed, issued and delivered by the Commission in accordance with the law, including the Act, and in accordance with the Indenture, and constitute legal, valid and binding obligations of the Commission as provided in the Indenture, enforceable in accordance with their terms and the terms of the Indenture, and are entitled to the benefits of the Act under the Indenture. The principal of and premium, if any, and interest on the Bonds are payable solely from (and secured exclusively by) a pledge of the Facility No. 1 Trust Estate (as defined in the Series 2003C Supplement). The Bonds do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.
3. The Indenture has been duly authorized, executed and delivered by the Commission and constitutes a legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. The Indenture creates the valid pledge and assignment which it purports to create of the Facility No. 1 Trust Estate.
4. The Use and Occupancy Agreement has been duly authorized, executed and delivered by the Commission and the Department and constitutes a legal, valid and binding obligation thereof, enforceable in accordance with its terms.
5. Under existing law, interest on the Bonds is exempt from taxation in the State for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. This opinion relates only to the tax exemption of interest on the Bonds from State taxes.
6. Under existing law, interest on the Bonds is excluded from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned

upon continuing compliance by the Commission and the Department with their respective Tax Covenants. We note that failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issuance.

With respect to the enforceability of the Bonds, the Indenture and the Use and Occupancy Agreement, this opinion letter is subject to the qualifications that: (a) the enforceability of any such document or instrument may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally; and (b) the enforceability of equitable rights and remedies is subject to judicial discretion and maybe limited by general principles of equity. It is to be further understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

**PROPOSED OPINION OF BOND COUNSEL
RE: SERIES 2003D BONDS**

December __, 2003

Indiana State Office Building Commission
Indianapolis, Indiana

Re: Indiana State Office Building Commission
Facilities Revenue Refunding Bonds, Series 2003D
(Rockville Correctional Facility)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana State Office Building Commission (the "Commission") of _____ Dollars (\$_____) aggregate principal amount of its Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 2003D (Rockville Correctional Facility) (the "Bonds"), under and pursuant to (i) Indiana Code 4-13.5, as amended (the "Act"); (ii) the Amended and Restated Trust Indenture dated as of January 1, 1998, as previously amended and supplemented (the "Amended and Restated Indenture"), between the Commission and J.P. Morgan Trust Company, National Association (as successor to NBD Bank, N.A.), as trustee (the "Trustee"); and (iii) the Series 2003D Supplemental Trust Indenture dated as of November 1, 2003 (the "Series 2003D Supplement" and, together with the Amended and Restated Indenture, the "Indenture"), between the Commission and the Trustee, pursuant to which the terms of the Bonds are set forth.

We have examined (a) a certified transcript of proceedings relating to, among other things, the authorization, issuance and sale of the Bonds; the authorization and execution of the Indenture; the authorization and execution of the Use and Occupancy Agreement dated as of September 15, 1995, relating to the Rockville Correctional Facility (the "Use and Occupancy Agreement"), between the Commission and the Department of Administration (the "Department") of the State of Indiana (the "State"); and the approval of the Commission's Official Statement dated November __, 2003; (b) the Certificate of the Commission Regarding Arbitrage and Certain Federal Tax Matters dated the date of this opinion letter; (c) executed counterparts of the Indenture and the Use and Occupancy Agreement; (d) an opinion of the Attorney General of the State; and (e) certificates as to the execution, authentication and delivery of the Bonds and no litigation pending as of the date of this opinion letter.

We have examined the constitution and statutes of the State, including particularly the Act, and such other documents, statutes, certifications, records and matters of law as we have deemed necessary for purposes of this opinion.

We have relied upon the certified transcript of proceedings and certificates of public officials, including the tax covenants and representations of the Commission and the Department (collectively, the "Tax Covenants"), and we have not undertaken to verify any facts by independent investigation.

Based upon the examinations referred to above, we are of the opinion as of the date of this opinion letter that:

1. The Commission is a public body corporate and politic, validly existing under the Act, with full power and authority to execute and deliver the Indenture and the Use and Occupancy Agreement, and to issue and sell the Bonds.

2. The Bonds have been duly authorized, executed, issued and delivered by the Commission in accordance with the law, including the Act, and in accordance with the Indenture, and constitute legal, valid and binding obligations of the Commission as provided in the Indenture, enforceable in accordance with their terms and the terms of the Indenture, and are entitled to the benefits of the Act under the Indenture. The principal of and premium, if any, and interest on the Bonds are payable solely from (and secured exclusively by) a pledge of the Facility No. 2 Trust Estate (as defined in the Series 2003D Supplement). The Bonds do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

3. The Indenture has been duly authorized, executed and delivered by the Commission and constitutes a legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. The Indenture creates the valid pledge and assignment which it purports to create of the Facility No. 2 Trust Estate.

4. The Use and Occupancy Agreement has been duly authorized, executed and delivered by the Commission and the Department and constitutes a legal, valid and binding obligation thereof, enforceable in accordance with its terms.

5. Under existing law, interest on the Bonds is exempt from taxation in the State for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. This opinion relates only to the tax exemption of interest on the Bonds from State taxes.

6. Under existing law, interest on the Bonds is excluded from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned

upon continuing compliance by the Commission and the Department with their respective Tax Covenants. We note that failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issuance.

With respect to the enforceability of the Bonds, the Indenture and the Use and Occupancy Agreement, this opinion letter is subject to the qualifications that: (a) the enforceability of any such document or instrument may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally; and (b) the enforceability of equitable rights and remedies is subject to judicial discretion and maybe limited by general principles of equity. It is to be further understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

Appendix F

Definitions

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APPENDIX F

DEFINITIONS

In addition to capitalized terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in this Official Statement:

"Accounts" means the accounts created under the Indenture.

"Accrued Debt Service" means, subject to a Supplemental Indenture, as of any date of calculation, an amount equal to the accrued Debt Service on the applicable series of 2003 Bonds related to a Facility, calculating the accrued Debt Service with respect to each such series of Bonds at an amount equal to the sum of (a) the applicable 2003 Annual Interest Portion on such 2003 Bonds accrued and unpaid (actual or budgeted as described in the definition of 2003 Annual Interest Portion) to the end of the then current calendar month, (b) Principal Installments for such Bonds due and unpaid and (c) that portion of the Principal Installment for such Bonds next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

"Acquire," "Acquired" or "Acquisition" means to purchase, erect, build, construct, reconstruct, renovate, refurbish, replace, extend, better, equip, develop, rehabilitate, remodel, relocate, enlarge, expand, make additions to, alter, modify, change, furnish, repair or improve a Facility, or to complete any of the foregoing, in each case to the extent same constitutes a capital expenditure under applicable law.

"Acquisition Costs" means all reasonable and necessary costs incurred in the Acquisition of a Facility, which costs may include, but are not limited to, the cost of Acquiring real property and any buildings thereon including relocation costs and payments for options, deposits or contracts to purchase properties; the cost of site preparation, demolition and development; any expenses relating to the issuance of the Bonds incurred by the Commission, including but not limited to, private placement fees, underwriting fees, original issue discounts, rating agency fees, printing costs and other necessary fees; fees in connection with the planning, execution and financing of a Facility, such as those of financial consultants, engineers, bond counsel, other special counsel, real estate counselors, appraisers, architectural historians and other such consultants, employees and agents as may be required in the judgment of the Commission; the cost of studies, surveys, plans, permits, insurance, interest, financing, taxes and assessments, and other operating and carrying costs during the Acquisition of a Facility; the cost of Acquiring a Facility; the cost of land improvements such as landscaping and off-site improvements; any initial expense, charge or cost payable upon issuance of the obligations with respect to the Acquisition of a Facility relating to or incurred in connection with the remarketing of obligations, such as remarketing agent or indexing agent fees or for credit enhancements or liquidity features, including, but not limited to, letter of credit fees, whether direct-pay or standby, swap agent fees and similar expenses or fees; the initial cost of such other items, including premiums for indemnity and surety bonds, premiums on insurance, including, but not limited to, municipal bond insurance, debt service reserve insurance or sureties and rental payment insurance, and fees and expenses of trustees, depositories, registrars, book entry registrars and paying agents for obligations issued under the Act; to the extent permitted by the

Act, Debt Service on Bonds from the date thereof to the time when Debt Service is to be paid solely from the income and revenues of a Facility and any amounts necessary to establish or fund any reserves required in connection with such obligations; the reimbursement of all moneys advanced or supplied to or borrowed by the Commission for the payment of any item of cost of a Facility; and such other expenses as may be necessary, proper or convenient to the Acquisition of a Facility under applicable law, the financing thereof under the Act and the placing of the same in use.

"Act" means Indiana Code 4-13.5, as amended and supplemented from time to time and any successor law.

"Additional Bonds" means one or more series of additional Bonds issued under a Supplemental Indenture.

"Additional Facility" means an additional Facility or portion thereof financed with Additional Bonds.

"Amended and Restated Indenture" means the Amended and Restated Indenture dated as of January 1, 1998, by and between the Commission and the Trustee (as successor to NBD Bank, N.A.).

"Auction Rate Bonds" means Variable Interest Rate Bonds which bear interest for certain periods at a rate that results from implementation of an auction process for the 2003 Bonds set forth in the 2003 Supplemental Indentures. The 2003 Bonds will be initially issued as Auction Rate Bonds.

"BMA Index" means on any date, the interest rate determined on the basis of the 7-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Bond Market Association ("BMA") or any person acting in cooperation with or under the sponsorship of BMA and acceptable to the applicable Remarketing Agent in effect on such date.

"Bondholder" or "Holder of Bonds" or "Owner of Bonds" or any similar term means the registered owner of any Bond outstanding under the Indenture.

"Bond" or "Bonds" means any bonds, notes or other evidence of obligations of the Commission issued, authenticated and delivered pursuant to the Indenture, including the Prior Bonds, the 2003 Bonds and any and all Additional Bonds and Refunding Bonds.

"Bond Insurance Policies" means the municipal bond insurance policies issued by the Bond Insurer that guarantees the payment of principal of and interest on each series of the 2003 Bonds when due.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"Bond Registrar" means J.P. Morgan Trust Company, National Association (as successor to NBD Bank, N.A.), a national banking association, as initial bond registrar for the 2003 Bonds

and any bond registrar appointed for any series of Bonds, and its successors or any successors hereafter appointed in the manner provided under the Indenture.

"Business Day" means any day other than (i) a Saturday, Sunday or legal holiday or a day on which banking institutions in any of the cities in which the respective principal offices of the Trustee and Paying Agent are located are authorized by law to close or remain closed or (ii) a day on which The New York Stock Exchange is closed.

"Code" means the Internal Revenue Code of 1986, as amended or supplemented, and any successor provisions of law, and any applicable Treasury regulations promulgated thereunder.

"Commencement Date" means, for any Facility, or any portion thereof, the date on which a completion certificate for such Facility, or such portion thereof, is accepted by a representative of the Department.

"Commission" means the Indiana State Office Building Commission, a body corporate and politic, organized and existing under the Act, and its successors.

"Credit Note" means any line of credit or loan contract note or notes or other obligations (not including the Bonds or any other revenue bonds of the Commission) executed by the Commission pursuant to any credit or other agreement to which the Commission is a party.

"Debt Service" for any period means, as of any date of calculation and with respect to any outstanding series of Bonds (issued under a particular Supplemental Indenture), an amount equal to the sum of (a) interest accruing during such period on Bonds of such series, except to the extent that such interest is to be paid from deposits in the applicable Debt Service Fund from proceeds of the Bonds of such series or a related series, including amounts, if any, transferred from the applicable Construction Fund, and (b) that portion of each Principal Installment for such series of Bonds which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such series of Bonds (or, if (i) there is no such preceding Principal Installment due date or (ii) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such series, whichever date is later), all subject to particular provisions of the Supplemental Indenture in the case of any series of put, capital appreciation or convertible capital appreciation Bonds. Such interest and Principal Installments will be calculated on the assumption that no Bonds outstanding at the date of such calculation will cease to be outstanding, except by reason of the payment of each Principal Installment when due.

"Defeasance Securities" means and includes only (a) any direct and general obligations of, or any obligations the timely payment of principal and interest of which is unconditionally guaranteed by, the United States of America, which obligations are not redeemable prior to maturity other than at the option of the holders thereof, (b) obligations of, or unconditionally guaranteed as to the timely payment of principal and interest by, the Federal National Mortgage Association, which obligations are not redeemable prior to maturity other than at the option of the holder thereof, (c) any obligations of any state or political subdivision of a state (collectively,

"Municipal Bonds") that are (i) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the owners of the Municipal Bonds and (ii) not redeemable prior to maturity other than at the option of the holder thereof, (d) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System, which certificates of ownership are not redeemable prior to maturity other than at the option of the holder thereof, and (e) the interest component of obligations issued by the Resolution Funding Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof.

"Department of Administration" and "Department" means the Indiana Department of Administration, and its successors.

"Depository" means a bank or trust company organized under the laws of any state of the United States of America or a national banking association having capital stock, surplus and undivided earnings or profits aggregating at least One Hundred Million Dollars (\$100,000,000) (or the parent corporation of such institution has such capital stock, surplus and undivided earnings or profits) and willing and able to accept the office on reasonable and customary terms and authorized by the law to act in accordance with the Indenture.

"Escrow Agreements" means each of the Escrow Deposit Agreements dated as of November 1, 2003, by and between the Commission and the Trustee, as escrow trustee, providing for (a) the refunding of the Refunded 1995A Bonds, and (b) the refunding of the Refunded 1995B Bonds.

"Escrow Funds" means the Refunded 1995A Bonds Escrow Fund and the Refunded 1995B Bonds Escrow Fund.

"Facility" means all or part of a building, structure, improvement or parking area owned or leased by the Commission for the purposes set forth in Indiana Code 4-13.5-1-1.

"Fiduciary" means the Trustee, the Bond Registrar, the Paying Agent, the Depositories or any or all of them, as may be appropriate.

"Final Maturity Date" means July 1, 2020.

"Fiscal Year" means the 12-month period commencing at 12:01 a.m. on July 1 of each year and ending at 12:01 a.m. that succeeding July 1 or such other fiscal year of the State as may be mandated by law.

"Fitch" means Fitch Ratings, and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized rating agency as the Commission may from time to time designate.

"Funds" means each or all of the funds created under the Indenture.

"Gross Revenues" means, with respect to any particular Facility, all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of such Facility or any portion thereof pursuant to the respective Use and Occupancy Agreement or otherwise, or from the sale, transfer or conveyance (whether voluntary or involuntary) of such Facility or any portion thereof; and shall include any rental payments received with respect to such Facility or any portion thereof from whatever sources (including, but not limited to, business interruption loss insurance) and receipts therefrom.

"Hoosier Notes" means the Commission's Tax Exempt Commercial Paper Hoosier Notes.

"Indenture" means the Amended and Restated Indenture, as previously amended and supplemented, and as further amended and supplemented by the 2003 Supplemental Indentures, as the same may be from time to time amended or supplemented.

"Indenture Facility" or "Indenture Facilities" means the other existing Facilities financed under the Indenture, the Wabash Valley Correctional Facility, the Rockville Correctional Facility or any Additional Facilities.

"Initial Auction Date" means January 10, 2006.

"Initial Rate" means the initial interest rate on the Series 2003 Bonds for the Original Period, as determined by the Underwriters.

"Investment Securities" means any of the following securities, if and to the extent the same are at the time legal for investment of the Commission's funds:

(i) Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) of this definition to the extent unconditionally guaranteed by the United States of America.

(ii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of this definition, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on bonds or other obligations of the character described in clause (i) of this definition which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the

bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate.

(iii) Bonds, debentures or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America.

(iv) Obligations issued by the Resolution Funding Corporation.

(v) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America.

(vi) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase hereunder such obligations are rated at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

(vii) Obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which at their time of purchase shall be rated at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

(viii) Obligations of the Commission payable from and secured by a pledge of the income and revenues of a facility other than the Facility payable pursuant to a use and occupancy agreement other than the Use and Occupancy Agreement.

(ix) Certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under such Indenture, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which at their time of purchase shall be rated in the highest rating category by Fitch, Moody's or S&P, or, in the case of an insurer

providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated at their time of purchase in the highest rating category by Fitch, Moody's or S&P.

(x) Certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) of this definition, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Indenture.

(xi) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any of the 50 largest banks in the United States of America which are rated at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

(xii) Commercial paper, other than that issued by bank holding companies, rated at their time of purchase at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

(xiii) Written repurchase contracts, reverse repurchase contracts or securities lending agreements (collateralized by cash or securities) with any securities dealer that is registered as a dealer under the Securities Exchange Act of 1934, as amended, and is monitored by, reports to and is recognized as a primary dealer by the Federal Reserve Bank of New York, having a net capital of at least \$200,000,000, for obligations of, or unconditionally guaranteed as to the payment of principal and interest by, the United States of America or obligations of, or unconditionally guaranteed as to the payment of principal and interest by, any Bank for Cooperatives, any Federal Intermediate Credit Bank, any Federal Home Loan Bank, the Export-Import Bank of the United States, any Federal Land Bank, the Farmers Home Administration, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Financing Bank, Federal Home Loan Mortgage Corporation or any other agency or instrumentality of, or corporation wholly owned by, the United States of America, provided (a) that at the time of entering into any such contract or agreement (i) the market value as determined by such primary dealer (the "Market Value") of the obligations subject to any such repurchase contract is at least equal to the purchase price specified in such contract, (ii) the purchase price specified in any such reverse repurchase contract is at least equal to the Market Value of the obligations subject to such contract, or (iii) the Market Value of the collateral for any such securities lending agreement is at least equal to the Market Value of the securities lent, and (b) such obligations or collateral are held by the Trustee under the Indenture or by a depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such obligations or collateral for the benefit of the Commission.

(xiv) Shares of an investment company organized under the Investment Company Act of 1940, as amended, which either (a) is rated at least AAA by

Fitch, Aaa by Moody's or AAA by S&P or (b) invests its assets exclusively in obligations of the type described in clause (i) of this definition, provided that the average maturity of such obligations shall not exceed 90 days.

(xv) Any agreement for an investment of money with a Qualified Institution (an "Investment Agreement"). All such investments (or the debt of the Qualified Institution with respect to any Investment Agreement) must be rated at least A+ by Fitch, A-1 by Moody's or A+ by S&P, at the time such Investment Agreement is entered into. For purposes of this clause (xv), "Qualified Institution" means a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, federal or state branch of a foreign bank pursuant to the International Banking Act of 1978, as amended, a savings and loan association, an insurance company or association or any other entity, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by such institution, are rated at their time of purchase at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

In lieu of the investment of moneys in obligations described in the first paragraph of this clause (xv), moneys held under the Indenture may, to the extent permitted by law, be invested in interest-bearing time deposits or certificates of deposit which are: (a) issued by banks, trust companies, savings banks and savings and loan associations whose debt obligations are rated at their time of purchase at least A+ by Fitch, A-1 by Moody's or A+ by S&P, or, with respect to certificates of deposit maturing in less than one year, whose short-term debt obligations are rated at their time of purchase at least A+ by Fitch, A-1 by Moody's or A+ by S&P; or (b) fully insured by the Federal Deposit Insurance Corporation.

(xvi) Any obligations rated at least A+ by Fitch, A-1 by Moody's or A+ by S&P.

"Liquidity Facility" means a line of credit, standby bond purchase agreement or similar instrument or agreement supporting the 2003 Bonds, as provided for in a 2003 Supplemental Indenture.

"Liquidity Provider" means the issuer or provider of a Liquidity Facility.

"Liquidity Rate" means the maximum interest rate the Commission may pay on any 2003 Reimbursement Obligations to or held by any person providing a Liquidity Facility for the 2003 Bonds during a period other than an Auction Rate Period, which is fifteen percent (15%) per annum.

"Maximum Rate" means twelve percent (12%) per annum.

"Moody's" means Moody's Investors Service, and its successors and assigns, provided that in the event that the foregoing is dissolved or liquidated or the Commission determines that

such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"Net Revenues" for any period and with respect to any particular Facility means the Gross Revenues during such period less expenses of operation, maintenance and repair for such Facility or portion thereof required to be paid by the Commission pursuant to the respective Use and Occupancy Agreement or otherwise during such period, all as calculated in accordance with generally accepted accounting principles and the Indenture.

"1995A Bonds" means the Indiana State Office Building Commission Correctional Facilities Program Revenue Bonds, Series 1995A, secured by the Amended and Restated Indenture.

"1995B Bonds" means the Indiana State Office Building Commission Correctional Facilities Program Revenue Bonds, Series 1995B, secured by the Amended and Restated Indenture.

"1998A Bonds" means the Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 1998A, secured by the Amended and Restated Indenture.

"Original Period" means the period commencing on the date of the issuance of the 2003 Bonds and ending on the Initial Auction Date.

"Paying Agent" means J.P. Morgan Trust Company, National Association (as successor to NBD Bank, N.A), a national banking association, as initial paying agent for the 2003 Bonds and any paying agent appointed for any series of Bonds, and its successors or any successors hereafter appointed in the manner provided under the Indenture.

"Pledged Funds" means (i) for an Indenture Facility and all related series of Bonds, the Construction Fund, the Debt Service Fund, any debt service reserve fund, the Replacement Reserve Fund and all Accounts and Subaccounts therein created with respect to such Indenture Facility; and (ii) for all Indenture Facilities and all series of Bonds, the General Fund and all Accounts and Subaccounts therein.

"Principal Installment" means, as of any date of calculation and with respect to any series of Bonds, so long as any Bonds of such series are outstanding, (a) the principal amount of Bonds of such series including the principal amount of any Put Bonds tendered for payment and purchased in lieu of redemption prior to the redemption date thereof due (or so tendered for payment and not purchased in lieu of redemption) on a certain future date for which no sinking fund installments have been established, or (b) the unsatisfied balance (determined as provided in the respective Supplemental Indenture) of any sinking fund installments due on a certain future date for Bonds of such series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of Bonds of such series on such future date in a principal amount equal to the unsatisfied balance of such sinking fund installments, or (c) if such future dates coincide as to different Bonds of such series, the sum of such principal amount of Bonds of such series and of such unsatisfied balance of sinking fund installments due on such future date plus such applicable redemption premiums, if any.

"Prior Bonds" means the Commission's prior series of facility revenue bonds and refunding bonds issued under Indenture to finance and refinance certain other authorized Indenture Facilities.

"Rate Period" means any Weekly Rate Period, Auction Rate Period or Term Rate Period.

"Record Date" means with respect to any 2003 Interest Payment Date in respect of a Weekly Rate Period or an Auction Rate Period, the Business Day next preceding such 2003 Interest Payment Date and, with respect to any 2003 Interest Payment Date in respect of the Term Rate Period, the 15th day of the calendar month next preceding such 2003 Interest Payment Date.

"Refunded Bonds" means the Refunded 1995A Bonds and the Refunded 1995B Bonds.

"Refunded Facilities" means the Wabash Valley Correctional Facility and the Rockville Correctional Facility.

"Refunded 1995A Bonds" means the 1995A Bonds maturing (or subject to mandatory sinking fund redemption) on or after July 1, 2006.

"Refunded 1995A Bonds Escrow Fund" means the escrow fund established pursuant to an Escrow Agreement for the 2003C Bonds into which a portion of the proceeds of the 2003C Bonds will be deposited for purposes of refunding the Refunded 1995A Bonds.

"Refunded 1995B Bonds" means the 1995B Bonds maturing (or subject to mandatory sinking fund redemption) on July 1 of the years 2006 through 2008, inclusive, and on July 1, 2020.

"Refunded 1995B Bonds Escrow Fund" means the escrow fund established pursuant to an Escrow Agreement for the 2003D Bonds into which a portion of the proceeds of the 2003D Bonds will be deposited for purposes of refunding the Refunded 1995B Bonds.

"Refunding Bonds" means all Bonds of one or more series issued, authenticated and delivered pursuant to the Indenture to refund any series or portion of series of any Bonds outstanding under the Indenture or, pursuant to an amendment to the Indenture, other outstanding bonds of the Commission.

"Remarking Agent" means the remarking agent appointed in accordance with the 2003 Supplemental Indentures, which is initially Bear, Stearns & Co. Inc. for the 2003 Bonds, and its successors and assigns.

"Rockville Correctional Facility" means the women's correctional facility located in Parke County, Indiana, the acquisition, design, construction and equipping of which were financed by bonds issued by the Commission.

"Rockville Correctional Facility Bonds" means the 1995B Bonds and the 2003D Bonds.

"Rockville Correctional Facility Use and Occupancy Agreement" means the Use and Occupancy Agreement dated as of September 15, 1995, between the Commission and the Department, relating to the Rockville Correctional Facility, including any further supplements or amendments thereto or renewals thereof.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"State" means the State of Indiana.

"Subaccounts" means, as the case may be, each or all the Subaccounts created under the Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Amended and Restated Indenture adopted by the Commission in accordance thereto.

"Tax-Exempt Bonds" means any Bonds which on the date of original issuance and delivery were the subject of an opinion of nationally recognized bond counsel that the interest thereon was excludable from gross income for federal income tax purposes under the Code.

"Tender Agent" means the Trustee, as appointed pursuant to the 2003 Supplemental Indentures, or any successor thereto.

"Term Bonds" means the 2003 Bonds for which Sinking Fund Installments are established.

"Term Rate" means the interest rate on the 2003 Bonds established in accordance with the respective 2003 Supplemental Indentures.

"Term Rate Period" means each period during which a Term Rate is in effect.

"Trust Estate" means for each Indenture Facility and all related series of Bonds, (a) the proceeds of the sale of all such series of Bonds; (b) the Net Revenues related to such Indenture Facility; and (c) the Pledged Funds, including the investments, if any, thereof; and the same are pledged and assigned under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Trustee" means J.P. Morgan Trust Company, National Association (as successor to NBD Bank, N.A.), a national banking association, or any successor trustee under the Indenture.

"2003 Annual Interest Portion" means for any 2003 Bonds in any Fiscal Year, (i) the amount budgeted by the Commission for interest payments on such 2003 Bonds in such Fiscal Year (as set forth in the annual budget prepared by the Commission pursuant to the Indenture), taking into consideration any or all of the following factors (or any other factors deemed relevant

by the Commission): (A) the current and any anticipated Rate Period(s) for the 2003 Bonds, (B) the historical Variable Interest Rate borne by the 2003 Bonds (or other bonds of like character with a Rate Period similar to the current and any anticipated Rate Period(s) for the 2003 Bonds); (C) the existence (or availability) and terms of any 2003 Hedge Agreement(s); (D) any amounts on deposit in the 2003 Interest Stabilization Funds; and (ii) if such 2003 Bonds bear interest at a Term Rate for a Term Rate Period expiring on or after the end of such Fiscal Year, the interest on such 2003 Bonds computed at the Term Rate for such Term Rate Period.

"2003 Bonds" means any of the 2003C Bonds or 2003D Bonds, issued under the Indenture.

"2003 Hedge Agreement" means any agreement (including terms and conditions incorporated by reference in the agreement) that is a rate swap agreement, basis swap, forward rate agreement, interest rate option, rate cap agreement, rate floor agreement, rate collar agreement, or any other similar agreement (including any option to enter into any of the agreements described above), any combination of the agreements described above, or a master agreement for an agreement or a combination of agreements described above, together with any and all supplements thereto, entered into by the Commission in connection with or incidental to the issuance, carrying or securing of any 2003 Bonds.

"2003 Hedge Agreement Obligations" means any obligations of the Commission to make any payments under any 2003 Hedge Agreement.

"2003 Hedge Provider" means the counterparty to a 2003 Hedge Agreement.

"2003 Interest Payment Date" means (i) with respect to any Weekly Rate Period, the first Business Day of each calendar month, (ii) with respect to any Term Rate Period, the first day of the first January or July following the effective date of such Term Rate Period, and the first day of each successive January and July, if any, of such Term Rate Period, and (iii) with respect to any Auction Rate Period, (A) for the Original Period, January 1, 2004, and the first day of each successive January and July through and including January 1, 2006, and on January 11, 2006, and (B) for any other Auction Period (other than the Original Period described in clause (A)), the Business Day next succeeding the last day of such Auction Period.

"2003 Interest Stabilization Funds" means the Funds of such name established pursuant to the 2003 Supplemental Indentures, which funds are not a part of the Trust Estate.

"2003 Reimbursement Obligations" means any obligations of the Commission to make any payments to a Liquidity Provider under a Liquidity Facility, if any.

"2003 Supplemental Indentures" means collectively the Series 2003C Supplemental Indenture and the 2003D Supplemental Indenture, amending and supplementing the Amended and Restated Indenture, as the same may be from time to time amended or supplemented in accordance therewith.

"2003C Bonds" means the Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 2003C (Wabash Valley Correctional Facility), issued under the

Amended and Restated Indenture, as amended and supplemented by the 2003C Supplemental Indenture, for the purpose of refunding the Refunded 1995A Bonds.

"2003C Supplemental Indenture" means the Series 2003C Supplemental Trust Indenture dated as of November 1, 2003, between the Commission and the Trustee, amending and supplementing the Amended and Restated Indenture, as the same may be from time to time amended and supplemented.

"2003D Bonds" means the Indiana State Office Building Commission Facilities Revenue Refunding Bonds, Series 2003D (Rockville Correctional Facility), issued under the Amended and Restated Indenture, as amended and supplemented by the 2003D Supplemental Indenture, for the purpose of refunding the Refunded 1995B Bonds.

"2003D Supplemental Indenture" means the Series 2003D Supplemental Trust Indenture dated as of November 1, 2003, between the Commission and the Trustee, amending and supplementing the Amended and Restated Indenture, as the same may be from time to time amended and supplemented.

"Undertaking" means the Continuing Disclosure Undertaking Agreement by and among the Commission, the State and the Trustee, as counterparty, dated the date of delivery of the 2003 Bonds, including any amendments or supplements thereto.

"Use and Occupancy Agreements" means the prior Use and Occupancy Agreements by and between the Commission and the Department, which provide for the use and occupancy of a Facility or any portion thereof, the Rockville Correctional Facility Use and Occupancy Agreement, the Wabash Valley Correctional Facility Use and Occupancy Agreement or any additional use and occupancy agreement, including any amendments or supplements thereto or renewals thereof.

"Variable Interest Rate" means a variable interest rate to be borne by a series of Bonds or any one or more maturities within which series of Bonds, with the method of computing such variable interest rate as of described in the respective Supplemental Indenture related thereto.

"Variable Interest Rate Bonds" means Bonds which bear a Variable Interest Rate.

"Wabash Valley Correctional Facility" means, collectively, the maximum security correctional facility and medium security correctional facility located in Sullivan County, Indiana, the acquisition, design, construction and equipping of which were financed by bonds issued by the Commission.

"Wabash Valley Correctional Facility Bonds" means the 1995A Bonds, the 1998A Bonds and the 2003C Bonds.

"Wabash Valley Correctional Facility Use and Occupancy Agreement" means the Use and Occupancy Agreement dated as of November 1, 1991, between the Commission and the Department, relating to the Wabash Valley Correctional Facility, as supplemented and amended by a First Supplemental Use and Occupancy Agreement dated as of July 1, 1995, including any further supplements or amendments thereto or renewals thereof.

"Weekly Rate" means the interest rate on the 2003 Bonds established in accordance with the respective 2003 Supplemental Indentures.

"Weekly Rate Period" means each period during which the 2003 Bonds bear interest at Weekly Rates.

Appendix G

Specimen Bond Insurance Policy

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

Appendix H
Auction Procedures

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APPENDIX H

AUCTION PROCEDURES

Section 1. Definitions.

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used within this APPENDIX H and elsewhere in this Official Statement have the following meaning unless the context or use indicates another or different meaning or intent:

"Agent Member" means a member of, or a direct participant in, DTC or any successor Securities Depository under the Indenture.

"Auction" means each periodic implementation of these Auction Procedures with respect to the Bonds.

"Auction Agent" means any entity appointed as such pursuant to the 2003 Supplemental Indentures and its successors in such capacity. Initially, the Auction Agent shall be The Bank of New York.

"Auction Agent Agreement" means the Auction Agent Agreement dated as of November 1, 2003, between the Commission and the Auction Agent, as amended and supplemented from time to time.

"Auction Date" means the Initial Auction Date, and, with respect to each Auction Period during an Auction Rate Period thereafter, the last Tuesday of the immediately preceding Auction Period, if any; *provided, however*, in either case, if such day is not a Business Day, the Auction Date with respect to such Auction Period shall be the next preceding Business Day; *provided further*, that in the case of an Auction Period nominally of less than 7 days, the Auction Date in respect thereof shall be the first day of such Auction Period.

"Auction Multiple" means, as of any Auction Date, the percentage of index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
AAA/Aaa	150%
AA/Aa	175%
A/A	200%
BBB/Baa	225%
Below BBB/Baa	250%

Provided, however, in no event shall the Auction Rate exceed the Maximum Auction Rate.

For purposes of this definition, the Prevailing Rating of the Bonds will be (a) AAA/Aaa, if the Bonds have a rating of AAA by the Standard and Poor's Ratings Group ("S&P") and a rating of Aaa by Moody's Investors Service, Inc. ("Moody's"), (b) if not AAA/Aaa, then AA/Aa if the Bonds have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, then A/A if the Bonds have a rating of A- or better by S&P and a rating of A3 or better by Moody's, (d) if not AAA/Aaa, AA/Aa or A/A, then below BBB/Baa, if the Bonds have a rating of BBB- or better by S&P and a rating of Baa3 or better by Moody's, and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa, then below BBB/Baa.

"Auction Period" means the Original Period, and thereafter, a period within an Auction Rate Period (i) during which the Bonds bear interest at an Auction Rate and (ii) which is established as provided in the 2003 Supplemental Indentures; it being understood that

(x) each Auction Period shall commence on, and include, (1) the first Business Day following the end of the next preceding Auction Period or (2) in the case of the first Auction Period in any Auction Rate Period (other than the Original Period), or the effective date of an adjustment to an Auction Rate Period;

(y) each Auction Period shall end on, and include, the date established as the last day of such Auction Period as provided in the 2003 Supplemental Indentures, whether or not such day shall be a Business Day; provided, however, that if such day shall not be immediately followed by a Business Day, then the last day of such Auction Period shall be the next succeeding day that is immediately followed by a Business Day; and

(z) any Auction Period may consist of any number of days from one (1) to 365 or 366, if the date of February 29 is included in such Auction Period; and

"Auction Procedures" means the procedures set forth in this APPENDIX H to the Official Statement, as amended and supplemented from time to time.

"Auction Rate" means the rate of interest per annum determined for the Bonds pursuant to the 2003 Supplemental Indentures and these Auction Procedures.

"Auction Rate Period" means each period during which the Bonds bear interest at an Auction Rate.

"Authorized Auction Denomination" means, during an Auction Rate Period, \$25,000 or any integral multiple thereof.

"Available Auction Bonds" has the meaning set forth in Section 6 of these Auction Procedures.

"Bid" has the meaning set forth in Section 4 of these Auction Procedures.

"Bidder" has the meaning set forth in Section 4 of these Auction Procedures.

"Bonds" for purposes of this APPENDIX H to the Official Statement, means the 2003 Bonds or a portion thereof.

"Broker-Dealer" means any entity permitted by law to perform the functions required of a Broker-Dealer set forth in these Auction Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), (ii) that has been selected by the Commission and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective. Initially, Bear Stearns & Co. Inc. and Morgan Stanley & Co. Incorporated will serve as Broker-Dealers.

"Broker-Dealer Agreement" means each agreement between a Broker-Dealer and the Auction Agent substantially in the form attached as an exhibit to the Auction Agreement, pursuant to which the Broker-Dealer, among other things, agrees to participate in Auctions as set forth in these Auction Procedures.

"Business Day" means a day on which banks in Indianapolis, Indiana and in New York, New York are not authorized or required to be closed and on which the New York Stock Exchange is not closed.

"Code" means the Internal Revenue Code of 1986, as amended.

"DTC" means The Depository Trust Company, New York, New York, its successors and their assigns or, if The Depository Trust Company or its successor or assign resigns from its functions as depository for the Bonds, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Commission, with the consent of the Market Agent.

"Event of Default" means any of the events of default set forth in the Amended and Restated Indenture, as described in this Official Statement in APPENDIX C, "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE – Defaults, Remedies."

"Existing Holder" means, for purposes of each Auction, a person who is listed as the beneficial owner of Bonds in the records of the Auction Agent as of the Record Date with respect to the respective last 2003 Interest Payment Date for the Auction Period then ending; provided, however, the records of the Auction Agent shall list the Broker-Dealers or Agent Members if the Auction Agent does not receive a list of such beneficial owners from the applicable Broker-Dealers or Agent Members.

"Failure to Deposit" means any failure to make the deposits required (a) no later than 5:00 p.m. New York City time, on the Business Day next preceding each 2003 Interest Payment Date in funds available on the next Business Day for the payment of principal of and interest on the Bonds or (b) no later than 12:00 noon New York City time, on the second Business Day preceding each redemption date in funds available on the next Business Day for the redemption of any Bonds.

"Hold Order" has the meaning set forth in Section 4 of these Auction Procedures.

"Index" means with respect to the Bonds on any Auction Date, (a) One-Month LIBOR, or (b) if such rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Commission.

"Market Agent" means any entity appointed as such under the 2003 Supplemental Indentures, and its successors in such capacity. Initially, Bear, Stearns & Co. Inc. and/or Morgan Stanley Co. Incorporated shall serve as Market Agent.

"Maximum Auction Rate" means as of any applicable Auction Date, the product of the Index multiplied by the Auction Multiple; but never to exceed the Maximum Rate.

"Minimum Auction Rate" means as of any applicable Auction Date, 55% of the Index in effect on such Auction Date; but in no event shall the Minimum Auction Rate exceed the Maximum Auction Rate.

"No Auction Rate" means, as of any applicable Auction Date, the rate determined by multiplying the "percentage of index" set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index:

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
"AAA"/"Aaa"	65%
"AA"/"Aa"	70%
"A"/"A"	85%
Below "A"/"A"	100%

Provided, however, in no event shall the No Auction Rate exceed the Maximum Auction Rate.

For purposes of this definition, the Prevailing Rating of the Bonds will be (a) AAA/Aaa, if the Bonds have a rating of AAA by the Standard & Poor's Ratings Group ("S&P") and a rating of Aaa by Moody's Investors Service, Inc. ("Moody's"), (b) if not AAA/Aaa, then AA/Aa if the Bonds have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, then A/A if the Bonds have a rating of A- or better by S&P and a rating of A3 or better by Moody's, (d) if not AAA/Aaa, AA/Aa or A/A, then below A/A.

"One-Month LIBOR" means the London interbank offered rate ("LIBOR") for deposits in U.S. dollars having a maturity of one month commencing on the Auction Date as reported by Bloomberg Financial Service, as of 9:00 a.m. New York City time, on the Auction Date. If such rate is not reported by Bloomberg Financial Service, the rate will be determined based on the rate appearing on Telerate Page 3750, on such Auction Date. If such rate is not reported by Bloomberg Financial Service and does not appear on Telerate Page 3750, such rate will be determined based upon the publication determined by the Broker-Dealer (or, if there is more than one Broker-Dealer, by the Market Agent) to be most comparable to Telerate Page 3750.

"Order" has the meaning set forth in Section 4 of these Auction Procedures.

"Overdue Rate" means, on any Auction Date, the Maximum Rate.

"Potential Holder" means any person, including any Existing Holder, who may be interested in acquiring the beneficial ownership of Bonds during an Auction Rate Period or, in the case of an Existing Holder thereof, the beneficial ownership of an additional principal amount of Bonds during an Auction Rate Period.

"Sell Order" has the meaning set forth in Section 4 of these Auction Procedures.

"Standard Auction Period" initially means the period determined pursuant to Section 2.04(c)(i) of the respective 2003 Supplemental Indenture, or if no such period is determined, then an Auction Period of 7 days and, after the establishment of a different period pursuant to Section 3 of these Auction Procedures, means such different Auction Period of 7 days, 28 days or 35 days; *provided that*, if the Standard Auction Period is 35 days and ends on a Tuesday, in the event the last Tuesday of the Auction Period is not immediately followed by a Business Day, with the result that the last day of such Auction Period is the next succeeding day that is immediately followed by a Business Day, the Standard Auction Period following such Auction Period shall be reduced to a shorter number of days so that the last day of the Auction Period following such Auction Period is the fifth Tuesday following such Auction Period, all subject, however, to the provisions contained in the Auction Period definition.

"Submission Deadline" means 1:00 p.m. New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" has the meaning set forth in Section 6 of these Auction Procedures.

"Submitted Hold Order" has the meaning set forth in Section 6 of these Auction Procedures.

"Submitted Order" has the meaning set forth in Section 6 of these Auction Procedures.

"Submitted Sell Order" has the meaning set forth in Section 6 of these Auction Procedures.

"Sufficient Clearing Bids" has the meaning set forth in Section 6 of these Auction Procedures.

"Telerate Page 3750" means the display page so designated on the Bridge Telerate Service (or such other page as may replace that page on that service for the purpose of displaying comparable rates or prices) or such comparable page on a comparable service.

"Winning Bid Rate" has the meaning set forth in Section 4 of these Auction Procedures.

Section 2. Auction Period — General.

During any Auction Rate Period after the Original Period, the Bonds shall accrue interest at the Auction Rate determined as set forth below. The Auction Rate for the initial Auction Period immediately after the Original Period or any subsequent conversion to an Auction Rate Period shall be the rate of interest per annum determined and certified to the Trustee, with a copy to the Commission, by the Market Agent on a date not later than the last day of the Original Period, the effective date of such conversion or the date of such mandatory purchase, as the case may be, as the minimum rate of interest which, in the opinion of the Market Agent, would be necessary as of such date to market the Bonds in a secondary market transaction at a price equal to 100% of the principal amount thereof, provided that such interest rate shall not exceed the Maximum Rate. Except for any such initial Auction Period or the Original Period, which commences on the date of original issuance of the Bonds, and as otherwise provided in the 2003 Supplemental Indentures for any other Auction Period, the Auction Rate shall be the rate of interest per annum that results from implementation of these Auction Procedures, provided that such interest rate shall not exceed the Maximum Rate. Except as provided in Section 6(c) of these Auction Procedures, if on any Auction Date and for any reason an Auction is not held, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate on and as of such Auction Date. Determination of the Auction Rate pursuant to these Auction Procedures shall be suspended upon (a) the occurrence of a Failure to Deposit or an Event of Default and (b) failure of the Bond Insurer to pay amounts due under the Bond Insurance Policy. Upon the occurrence of such a Failure to Deposit or an Event of Default (and failure of the Bond Insurer to pay amounts due under the Bond Insurance Policy) on any Auction Date no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Auction Rate shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date for each Auction Period commencing after the occurrence of such Failure to Deposit or such Event of Default to and including the Auction Period, if any, during which or commencing less than two Business Days after the earlier of (a) such Failure to Deposit or such Event of Default has been cured or waived and (b) the first date on which all of the following conditions shall have been satisfied:

(i) No default shall have occurred and be continuing under the Bond Insurance Policy (the satisfaction of such condition to be conclusively evidenced, absent manifest error, to each of the Trustee and the Auction Agent by a certificate of a duly authorized officer of the Bond Insurer to such effect delivered to such entity);

(ii) The Bond Insurer shall have delivered to the Auction Agent an instrument, satisfactory in form and substance to the Auction Agent, containing (A) an unconditional agreement of the Bond Insurer to furnish to the Auction Agent amounts sufficient to pay all fees of the Broker-Dealers, as provided in the Broker-Dealer Agreements, and of the Auction Agent, (B) such other agreements and representations as the Auction Agent shall reasonably require and (C) a direction not to suspend, or to resume, the implementation of the Auction Procedures, as the case may be; and

(iii) The Auction Agent shall have advised the Trustee that the Auction Agent has been directed by the Bond Insurer not to suspend, or to resume, the implementation of the Auction Procedures.

The Auction Rate for any Auction Period commencing after certificates representing the Bonds have been distributed as described in Section 10 of these Auction Procedures shall be equal to the Maximum Auction Rate on each Auction Date.

Auction Periods may be changed at any time as described in Section 3 of these Auction Procedures unless (a) a Failure to Deposit or an Event of Default has occurred and has not been cured or waived and (b) the Bond Insurer has failed to make payments due under the Policy. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established, and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established as described in Section 3 of these Auction Procedures.

The Market Agent shall from time to time increase any or all of the percentages set forth in the definition of "Auction Multiple" in Section 1 of these Auction Procedures or the percentage set forth in the definition of "Minimum Auction Rate" in Section 1 of these Auction Procedures in order that such percentages take into account any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date of the 2003 Supplemental Indentures which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to the Bonds or (b) imposes or would impose or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon any interest on a governmental obligation, the interest on which is excluded from federal gross income under Section 103 of the Code. The Market Agent shall give notice of any such increase by means of a written notice delivered at least two Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Commission and DTC.

Pursuant to the 2003 Supplemental Indentures, the Bonds may be sold in more than one Auction Period and may bear interest at one or more Auction Rates and on or more other Rate Periods. In such event, the Bonds may be divided into subseries to accommodate the ongoing identification of the affected Bonds and the ongoing administration of such combinations. The Trustee is authorized and directed to follow the Commission's instruction with regard to the identification of the affected Bonds and the administration of such combinations, provided the Trustee receives an opinion of Bond Counsel that such instructions will not adversely effect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 3. Change of Auction Period.

During an Auction Rate Period, the Commission may change the length of a single Auction Period or the Standard Auction Period (after the Original Period) by means of a written notice delivered at least 20 days, but not more than 60 days, prior to the Auction Date for such Auction Period to the Trustee, the Bond Insurer, the Auction Agent and DTC. Any Auction Period or Standard Auction Period established pursuant to these Auction Procedures may not exceed 364 days in duration. If such Auction Period will be less than 35 days, such notice shall be effective only if it is accompanied by a written statement of the Commission, the Trustee, the Auction Agent and DTC to the effect that each is capable of performing its respective duties

under the applicable 2003 Supplemental Indenture and the Auction Agent Agreement with respect to an Auction Period of such duration. The length of an Auction Period or the Standard Auction Period may not be changed as described herein unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (a) the Trustee, the Bond Insurer and the Auction Agent receive, by 11:00 a.m. New York City time, on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Commission by telecopy or similar means authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, and confirming that bond counsel expects to be able to give an opinion on the first day of such Auction Period to the effect that the change in the Auction Period is authorized by the applicable 2003 Supplemental Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes, (b) the Trustee shall not have delivered to the Auction Agent by 12:00 noon New York City time, on the Auction Date for such Auction Period notice that a Failure to Deposit has occurred, (c) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period and (d) the Trustee, the Bond Insurer and the Auction Agent receive by 9:30 a.m. New York City time, on the first day of such Auction Period an opinion of bond counsel to the effect that the change in the Auction Period is authorized by the 2003 Supplemental Indentures, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the condition referred to in (a) above is not met, the Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Auction Procedures and the next succeeding Auction Period shall be a Standard Auction Period. If the condition referred to in (b) above is not met, the Auction Rate for the next succeeding Auction Period shall equal the Overdue Rate. If any of the conditions referred to in (c) or (d) above is not met, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate as determined as of the Auction Date for such Standard Auction Period.

Section 4. Orders by Existing Holders and Potential Holders.

(a) Subject to the provisions of Section 2 hereof, Auctions shall be conducted on each Auction Date in the manner described in this Section 4 and in the remainder of these Auction Procedures. Prior to the Submission Deadline on each Auction Date during an Auction Rate Period:

(i) each Existing Holder may submit to a Broker-Dealer information as to:

(A) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;

(B) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder (1) offers to continue to hold if the Auction Rate for

the next succeeding Auction Period shall not be less than the rate per annum specified by such Existing Holder and (2) if such offer to hold shall not be accepted in whole, offers to sell as and to the extent provided in subsection (b)(i) of this Section 4; and/or

(C) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Auction Period;

(ii) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Bonds which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (i)(A), (i)(B) or (i)(C) or clause (ii) above is hereinafter referred to as an "Order" and each Existing Holder and Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (i)(B) or clause (ii) above is hereinafter referred to as a "Bid"; and an Order containing the information referred to in clause (i)(C) above is hereinafter referred to as a "Sell Order."

(b) (i) Subject to the provisions of Section 5 of these Auction Procedures, a Bid by an Existing Holder, to the extent not accepted under subsection (a)(i)(B)(1) above, shall be deemed to have been rejected and, thereupon, to constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate determined pursuant to these Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(iv) of Section 7 of these Auction Procedures if the Auction Rate determined pursuant to these Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(C) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Auction Rate or such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iii) of Section 7 of these Auction Procedures if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions of Section 5 of these Auction Procedures, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order;

or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iii) of Section 7 of these Auction Procedures if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions of Section 5 of these Auction Procedures, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(v) of Section 7 of these Auction Procedures if the Auction Rate determined on such Auction Date shall be equal to such specified rate.

Section 5. Submission of Orders by Broker-Dealers to Auction Agent.

(a) During an Auction Rate Period, each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date during the Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Bonds that are subject to such Order;

(iii) to the extent that such Bidder is an Existing Holder:

(A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(c) If an Order or Orders covering all Bonds held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Bonds held by such Existing Holder and not subject to Orders submitted to the

Auction Agent. None of the Commission, the Trustee and the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(d) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid, but only up to and including the principal amount of Bonds held by such Existing Holder, and, if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Holder, the aggregate principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Bonds held by such Existing Holder;

(ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of Bonds held by such Existing Holder over the aggregate principal amount of Bonds subject to any Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and, the principal amount of Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Bonds equal to such excess;

(C) subject to clauses (A) and (B) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of Bonds, if any, subject to Bids not valid under this paragraph (ii) shall be treated as subject to a Bid by a Potential Holder at the rate therein specified; and

(iii) all Sell Orders shall be considered valid up to and including a principal amount of Bonds equal to the excess of (A) the principal amount of Bonds held by such Existing Holder over (B) the sum of the principal amount of Bonds subject to valid Hold Orders referred to in paragraph (i) above and the principal amount of Bonds subject to valid Bids referred to in paragraph (ii) above.

(e) If more than one Bid for Bonds is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid for Bonds with the rate and principal amount therein specified.

(f) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Bonds not equal to an Authorized Auction Denomination shall be

rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Bonds not equal to an Authorized Auction Denomination shall be rejected.

(g) Any Bid submitted by an Existing Holder or Potential Holder specifying a rate lower than the Minimum Auction Rate shall be treated as a Bid specifying the Minimum Auction Rate.

(h) Any Order submitted by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

Section 6. Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate.

(a) Not earlier than the Submission Deadline on each Auction Date during the Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(i) the excess, if any, of the total principal amount of Bonds over the aggregate principal amount of Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Bonds"); and

(ii) from the Submitted Orders whether or not the aggregate principal amount of Bonds subject to Submitted Bids by Potential Holders specifying one or more rates not higher than the Maximum Auction Rate exceeds or is equal to the sum of:

(A) the aggregate principal amount of Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate; and

(B) the aggregate principal amount of Bonds subject to Submitted Sell Orders;

(it being understood that, in the event of such excess or such equality (other than because the sum of the principal amounts of Bonds in clauses (A) and (B) above is zero because all of the Bonds are subject to Submitted Hold Orders), there shall be deemed to exist, and such Submitted Bids by Potential Holders shall be hereinafter called, collectively, "Sufficient Clearing Bids"); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(A) (I) each Submitted Bid from Existing Holders specifying such lowest rate and (II) all other Submitted Bids from Existing Holders specifying lower rates were accepted, thus entitling such Existing Holders to continue to hold the Bonds that are the subject of such Submitted Bids; and

(B) (I) each Submitted Bid from Potential Holders specifying such lowest rate and (II) all other Submitted Bids from Potential Holders specifying lower rates were accepted, thus entitling and requiring such Potential Holders to purchase the Bonds that are the subject of such Submitted Bids, would result in such Existing Holders described in clause (A) above continuing to hold an aggregate principal amount of Bonds which, when added to the aggregate principal amount of Bonds to be purchased by such Potential Holders described in clause (B) above, would equal not less than the Available Auction Bonds.

(b) Promptly after the Auction Agent has made the determinations pursuant to subsection (a) of this Section 6 of these Auction Procedures, the Auction Agent by facsimile or electronic transmission, or by telephone (promptly confirmed by such means), shall advise the Commission and the Trustee of the Maximum Auction Rate and the Minimum Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Period as follows:

(i) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(ii) if Sufficient Clearing Bids do not exist (other than because all of the Bonds are the subject of Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Auction Rate; and

(iii) if all of the Bonds are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Minimum Auction Rate.

(c) In the event that the Auction Agent fails to calculate, or for any reason fails to timely provide, the applicable Auction Rate for any applicable Auction Period, the Auction Rate for such Auction Period, shall be the No Auction Rate; provided, however, that if the Auction Procedures are suspended due to the (i) occurrence of a Failure to Deposit or an Event of Default, and (ii) failure of the Bond Insurer to pay amounts due under the Bond Insurance Policy as described in Section 2 hereof, then the applicable Auction Rate for the next succeeding applicable Auction Period shall be the Overdue Rate.

Section 7. Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Bonds.

During an Auction Rate Period, existing Holders shall continue to hold the principal amounts of Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to subsection (a) of Section 6 of these Auction Procedures, the Submitted Bids and Submitted Sell Orders shall be accepted or rejected, and the Auction Agent shall take such other actions, as set forth below:

(a) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraphs (e) and (f) of this Section 7 of these Auction Procedures, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the aggregate principal amount of Bonds subject to such Submitted Bids;

(ii) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bids;

(iii) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus entitling and requiring each such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bids;

(iv) each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bid, unless the aggregate principal amount of Bonds subject to all such Submitted Bids shall be greater than the principal amount of Bonds (the "Remaining Principal Amount") equal to the excess of the Available Bonds over the aggregate principal amount of the Bonds subject to Submitted Bids described in paragraphs (ii) and (iii) of this subsection (a), in which event such Submitted Bid of such Existing Holder shall be accepted in part only, and such Existing Holder shall be entitled to continue to hold the Bonds subject to such Submitted Bid only in the principal amount obtained by multiplying the Remaining Principal Amount by a fraction, the numerator of which shall be the principal amount of Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Bonds subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and the remainder of such Submitted Bid shall be rejected, thus requiring such Existing Holder to sell the excess principal amount of Bonds as to which such Submitted Bid shall not have been accepted as aforesaid; and

(v) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Bonds obtained by multiplying the excess of the Available Bonds over the aggregate principal amount of Bonds subject to Submitted Bids described in paragraphs (ii), (iii) and (iv) of this subsection (a) by a fraction the numerator of which shall be the aggregate principal amount of Bonds subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amount of Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate; and the remainder of such Submitted Bid shall be rejected; and

(vi) each Potential Holder's Submitted Bid specifying a rate that is higher than the Winning Bid Rate shall be rejected.

(b) If Sufficient Clearing Bids have not been made (other than because all of the Bonds are subject to Submitted Hold Orders), subject to the provisions of subsection (e) of this Section 7 of these Auction Procedures, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Bonds subject to such Submitted Bids;

(ii) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, thus entitling and requiring each such Potential Holder to purchase the aggregate principal amount of Bonds subject to such Submitted Bids;

(iii) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate shall be rejected, and each Existing Holder's Submitted Sell Order shall be accepted, thus requiring each Existing Holder that submitted any such Submitted Bid and/or Submitted Sell Order to sell the Bonds subject to such Submitted Bid and/or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Bonds obtained by multiplying the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (ii) of this subsection (b) by a fraction, the numerator of which shall be the aggregate principal amount of Bonds held by such Existing Holder subject to such Submitted Bid and/or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Bonds subject to all such Submitted Bids and Submitted Sell Orders; and the remainder of such Existing Holder's Submitted Bid and/or Submitted Sell Order shall be deemed to be, and shall be deemed to be accepted as, a Hold Order thus entitling such Existing Holder to continue to hold such excess principal amount of Bonds as to which such Submitted Bid shall not have been rejected, and/or such Submitted Sell Order shall not have been accepted, as aforesaid; and

(iv) each Potential Holder's Submitted Bid specifying a rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If all Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(d) If, as a result of the procedures described in subsection (a) or (b) of this Section 7 of these Auction Procedures, any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of Bonds that is not equal to an Authorized Auction Denomination, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Auction Denomination.

(e) If, as a result of the procedures described in subsection (a) of this Section 7 of these Auction Procedures, any Potential Holder would be required to purchase less than \$25,000 in aggregate principal amount of Bonds, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Bonds for purchase among Potential Holders so that only Bonds in principal amounts equal to an Authorized Auction Denomination are

purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Bonds.

(f) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of Bonds to be purchased and the aggregate principal amounts of Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of Bonds such Broker-Dealer shall receive, as the case may be, Bonds.

(g) The Commission may not submit an Order in any Auction.

Section 8. Calculation of Maximum Auction Rate, Minimum Auction Rate and Overdue Rate.

The Auction Agent shall calculate the Maximum Auction Rate and the Minimum Auction Rate on each Auction Date. If the ownership of the Bonds is no longer maintained in book-entry-only form by the Securities Depository, the Auction Agent shall calculate the Maximum Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the Bonds. If a Failure to Deposit or Event of Default shall have occurred, the Auction Agent, upon notice thereof, shall calculate the Overdue Rate on the first day of each Auction Period commencing after the occurrence of such Failure to Deposit or Event of Default to and including the Auction Period, if any, commencing less than two Business Days after all such Failures to Deposit and Events of Default are cured.

Section 9. Settlement Procedures Set Forth in Exhibit A to the Broker-Dealer Agreement.

(a) Not later than 3:00 p.m. New York City time, on each Auction Date, the Auction Agent shall notify, either by telephone or such other electronic means acceptable to the parties using such means, each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder (a "Seller's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder (a "Buyer's Broker-Dealer"), whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the Bonds, if any, to be purchased by such Potential Holder;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of the Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of the Bonds and the principal amount of the Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

(vi) if the principal amount of the Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of the Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of the Bonds and the principal amount of the Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of the Bonds to be purchased pursuant to such Bid against receipt of such Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through DTC the principal amount of the Bonds to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to subsection (a) of this Section 9, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to subsection (b)(ii) of this Section 9, and any Bonds received by it in connection with such Auction pursuant to subsection (b)(iii) of this Section 9 among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to subsection (a)(v) or (a)(vi) of this Section 9.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Dates shall instruct its Agent Member as provided in subsection (b)(ii) or (iii) of this Section 9, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to the Agent Member of the Existing Holder delivering the Bonds to such Broker-Dealer following such Auction pursuant to subsection (b)(iii) of this Section 9 the amount necessary to purchase such Bonds against receipt of such Bonds, and (B) deliver such Bonds through DTC to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to subsection (a)(v) of this Section 9 against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to subsection (a)(vi) of this Section 9 the amount necessary to purchase the Bonds to be purchased pursuant to subsection (b)(ii) of this Section 9 against receipt of such Bonds, and (B) deliver such Bonds through DTC to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in subsection (d)(i) of this Section 9 shall instruct DTC to execute the transactions described under (b)(ii) or (iii) of this Section 9 for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in subsection (d)(ii) of this Section 9 for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in subsection (d)(iii) of this Section 9 for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling Bonds in an Auction fails to deliver such Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of the Bonds that is less than the principal amount of the Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of the Bonds to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of the Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this subsection (f), any delivery or non-delivery of the Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the applicable Broker-Dealer Agreement.

Section 10. DTC Required During Auction Rate Period; Limitations on Transfer.

Except as otherwise provided herein, the Bonds accruing interest at an Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

If at any time DTC notifies the Commission that it is unwilling or unable to continue as owner of the Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and a successor to DTC is not appointed by the Commission, the Trustee and the Auction Agent, within 90 days after the Commission receives notice or become aware of such condition, as the case may be, the Commission shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Bonds issued as described herein shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the Commission and the Trustee. The Trustee shall deliver the Bonds to the persons in whose names such Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the Bonds is maintained in book-entry-only form by DTC, an Existing Holder may sell, transfer or otherwise dispose of the Bonds only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

Section 11. Modification.

If there shall have been delivered to the Trustee an instrument, executed by the Commission, the Auction Agent, each Broker-Dealer and the Bond Insurer, setting forth one or more modifications to these Auction Procedures, together with a certificate of the Market Agent to the effect that such modifications are desirable in order to minimize the effective interest cost of the interest cost of the Bonds in light of prevailing financial market conditions, then these Auction Procedures shall be deemed, without further action, to have been modified and amended to the extent, and as of the effective date, set forth in such instrument; provided, however, that no such certificate shall be required if such modification is solely for the purpose of curing or correcting an ambiguity, omission or defective provision; and provided, further, that there shall

also have been delivered to the Trustee an opinion of Bond Counsel to the effect that such modification is permitted by applicable law and will not have an adverse effect on the exclusion of the interest on the Bonds from the gross income of the owners or beneficial owners thereof for federal income tax purposes.



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